PEMNA HIGH-LEVEL CONFERENCE
Treasury COP:
Government Cash Management in Malaysia

Presented by:
Accountant General Department of Malaysia

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Seoul, Korea
**MALAYSIA**

**Federal Government Financial Position**

**Total Expenditure, Deficit/Surplus and GDP**

- **Expenditure as % of GDP**
- **Deficit/Surplus as % of GDP**
- **GDP growth (%)**

**SOURCE:** ECONOMICS AND INTERNATIONAL DIVISION, MINISTRY OF FINANCE, MALAYSIA

**POPULATION**
- **2011**
- **28.55 mil**

**AREA**
- **330,803 km²**

**MINISTRIES**
- **24**

**GDP 2011**
- **RM881.1 b**

**GROWTH RATE**
- **2011**
- **5.1%**

**INFLATION RATE**
- **2011**
- **3.2%**
About 50,000 government users at 4,000 RCs will be involved in this initiative encompassing 25 Ministries, 177 Departments and 24 AGOs.
CASH MANAGEMENT

Cash Management Policy [MOF]
- Management of flows
- Management of balances
- Targeting a balance

Debt Management Policy [MOF & Central Bank]

Monetary Policy [Central Bank]

Payment & Receipt Management [MOF & EPU]

Budget Preparation Treasury System (Budget Execution)

FISCAL REPORT

Bulk Payment System

Revenue System

Payment/HR Management

Procurement System

SPP - Project Monitoring System

GFMAS [AGO]

Investment (Surplus) [Accounting Government Office & Central Bank]
GOVERNMENT’S BANK ACCOUNTS [Collection from Central Agencies]

- MONEY MARKET OPERATION
- CENTRAL MAIN ACCOUNT
- CENTRAL PAYMENT ACCOUNT
- CENTRAL COLLECTION ACCOUNT

COLLECTION CENTRAL AGENCIES
- INLAND REVENUE BOARD
- CUSTOM DEPT.
- GLC: PETRONAS

HEAD OFFICE
CENTRAL BANK OF MALAYSIA

INLAND REVENUE BOARD OF MALAYSIA
PETROLIAM NATIONAL BERHAD
ROYAL MALAYSIAN CUSTOM DEPT.
Effective and Effective Cash Management

Cash Flow Committee
MOF/AG

GFMAS (IFMS)
AG

TSA + Multiple Bank
AG

Investment
AG/CB

Debt Management
MOF

Fiscal Policy
MOF/EPU

Monetary Policy
CB

Headed by The Secretary General, The Federal Treasury of Malaysia (MOF), Accountant General (AG), Economic Division, Central Bank (CB), Budget Division, Loan Division, Tax Division, Economic Planning Unit (EPU), Custom Department & Inland Revenue Board – Monitoring and Decision Making on policy.

Government Financial and Management Accounting System used in AOs and HO for financial planning, budget control including payments, receipts, remuneration control, unclaimed monies, government loans, loans and advance payments, investments and preparation of the Public Accounts.

Connecting all ministries to the AO by an on-line, real time computer networks.

Commercial banks have a much greater geographical spread and processing capability.

Idle cash balance; daily transfer of fund

E-Banking; Electronic Collection and payment (EFT)

Cash surplus placement is deposited at commercial bank by AG and CB

To finance government deficit & DE

To borrow from Domestic sources as much as possible

To borrow from the cheapest sources

Empowering Ministries and agencies to be financially accountable for revenue and expenditure

Ensure that cash ministry’s actual expenditure is in accordance with the budget provisions.

Centralized payment through AO

Manage the government cash flows in the financial market

To neutralize the impact on the domestic banking sector of the government cash flow

As of November, 2012
<table>
<thead>
<tr>
<th>Operating</th>
<th>Investing</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Receipts</strong></td>
<td><strong>Receipts</strong></td>
<td><strong>Receipts</strong></td>
</tr>
<tr>
<td>Taxation Revenue</td>
<td>Proceeds from disposals of property, plant and equipment</td>
<td>Proceeds from borrowings</td>
</tr>
<tr>
<td>Non-taxation Revenue</td>
<td>Proceeds from sale of investments</td>
<td>Loan extended</td>
</tr>
<tr>
<td>Miscellaneous Receipts</td>
<td>Receipts of loan extended</td>
<td>Investments in debt/equity securities</td>
</tr>
<tr>
<td>Federal Territories Revenue</td>
<td>Interest received</td>
<td></td>
</tr>
<tr>
<td>Payments made to suppliers</td>
<td>Dividends received</td>
<td>Interest paid</td>
</tr>
<tr>
<td>Grants paid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other payments</td>
<td></td>
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</tr>
<tr>
<td><strong>Payments</strong></td>
<td><strong>Payments</strong></td>
<td><strong>Payments</strong></td>
</tr>
<tr>
<td>Wages, salaries and employee benefits</td>
<td>Purchase of property, plant and equipment</td>
<td>Repayment of borrowings</td>
</tr>
<tr>
<td>Pension payments</td>
<td>Loan extended</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investments in debt/equity securities</td>
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<td></td>
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</tbody>
</table>

**Cash Flow Statement**

**As of April 1, 2011**

**Accountant General Department of Malaysia**

**Jabatan Akauntan Negara Malaysia**
Debt Management

BORROWING POLICY:
- To finance Government deficit on DE
- To borrow from Domestic sources
- To borrow from cheapest source

SOURCES OF BORROWING IN TERMS OR PRIORITY:
- 1st Priority: Domestic market:
  MGS, TB, Government Investment Issues, Syndicated loan
- 2nd Priority: Foreign market:
  Bond, World Bank, ADB, IDB, JICA, Other Government

LIMITS TO BORROWING:
- External Loan Act 1963 – Max RM35b
- Treasury Bills (Local) Act 1964 – Max RM10b
- Government Funding Act 1983 & Loan (Local Act 1959
  - Not more than 55% of GDP

- Close interaction between government debt and cash management units
- Debt service charges not to exceed 15% of revenue
- Federal Government external debt capped at 10% of GDP
- Operating expenditure not to exceed revenues
The Relevant Laws

- Financial Procedure Act 1957
- Federal Constitution 1957
- Financial Procedure Act 1957
- Pension Act 1980
- Retirement Trust Fund Act 2007
- Housing Loan Act 1971
- Development Funds Act 1966
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 AGO’s/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.
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 (e.g., backup)

Exorbitant cost for hot DRC
Difficulty in developing expertise
Inconsistency of data
RCs document status is not real time
Reconciliation of data

Accountant General Department of Malaysia
Jabatan Akauntan Negara Malaysia

1GFMAS
a single integrated centralized environment

SYSTEM AND PROCESS

SYSTEM DEVELOPMENT STRATEGY
- Address transitional period of full accrual reporting implementation and audit requirement
- Accommodate transition of possible legislation drafting

OPERATIONAL FRAMEWORK

<table>
<thead>
<tr>
<th>Stage</th>
<th>Expenses</th>
<th>Revenues</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Contingent Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>As Is</td>
<td>Payments</td>
<td>Receipts</td>
<td>Financial assets</td>
<td>Balance of Public Borrowings Not Transferred To Development Fund &amp; Housing Loan Fund</td>
<td>Guarantees</td>
</tr>
<tr>
<td>Stage I (Jan 1 2014)</td>
<td>All Expenses on accrual basis</td>
<td>All Revenues on accrual basis</td>
<td>Financial assets + Receivables</td>
<td>Balance of Public Borrowings Not Transferred To Development Fund &amp; Housing Loan Fund + Payables</td>
<td>Guarantees</td>
</tr>
<tr>
<td>Stage II (Jan 1 2015)</td>
<td>All Expenses on accrual basis</td>
<td>All Revenues on accrual basis</td>
<td>All Assets</td>
<td>All Liabilities</td>
<td>All explicit contingent liabilities</td>
</tr>
</tbody>
</table>

System Approaches
- Cash & Accrual Reporting Capabilities
- Single AG System
- Centralised System
- Upgrade SAP version 4.7 to ECC6.0

Use current SAP system to reduce risk in data migration and lessen change management process
Enable accrual accounting business processing
Enable business process reengineering in conjunction with accrual implementation
Improve work processes
Lower Total Cost of Ownership

Enhance data integrity
Faster data processing
Reduce maintenance cost
On line and real-time by ministries reporting

Added and improved functionalities
Continuous support at relatively lower cost
Leverage associated technology capabilities
Moving Forward ...

Centralized Systems (1GFMAS)

Efficient Payment Infrastructure – Electronic Fund Transfer (EFT)

Reduce cash holdings and idle balances at AO Banks

Move to a Treasury Single Accounts (TSA)

Introduce performance measures and cost monitoring systems: Activity Based Costing (ABC) Outcome Based Budgeting (OBB)

Accrual Accounting 2015

Centralized treasury payment and revenue collection systems

- Enhance GL & SL functions
- Single system for RCs & AOs functions
- Cash and accrual basis of accounting
- Financial statement by Ministry

- Enhancing payment channel
- Increasing reliance on EFT (99%)
- Centralized treasury payment and revenue collection system.
- Further improve Treasury Cash Management

- The costing data can be cascaded down to the performance of individual departments responsible for the respective activity in **measuring the effectiveness of the programs**

- Accrual accounting is a key element in working for outcomes framework under OBB – Costing data enables to **quantitatively measure** the operating efficiency of Ministries and agencies in producing the agreed outcomes

- Better financial management through with the **complete view** Assets & Liabilities – comparable with global development with wider stakeholders’ interest in government finances
THANK YOU
TERIMA KASIH