



Certification of Central Government Financial Statement

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INTRODUCTION

ISSAI APPLICATION (Most of ASOSAI Members)

- Pre-engagement
- Planning
- Executing
- Reporting

FEDERAL GOVERNMENT (ASOSAI) FINANCIAL STATEMENT PREPARED BASED ON ACCRUAL ACCOUNTING

- Australia
- Tajikistan
- Kuwait
- Thailand

WAY FORWARD FOR SAI MALAYSIA

- Financial Statement for Year Ended 31 December 2018 based on Accrual Accounting

Source: JAN Survey

MALAYSIAN ACCOUNTING SYSTEM

Modified Cash Basis

- Section 16(1) of the Financial Procedure Act, 1957 [Act 611]
- Government Accounting Standards and International Public Sector Accounting Standards (IPSAS)

Federal Consolidated Fund

- Consolidated Revenue Account
- Consolidated Loan Account
- Consolidated Trust Account

ISSAI 1600: Special Considerations – Audits of Group Financial Statements (including the Work of Component Auditors) is not yet applicable under Malaysian chapter.

TRANSFORMATION TO ACCRUAL ACCOUNTING

In May 2011, the Federal Government of Malaysia launched a major project to transform its current modified cash basis system to accrual basis accounting

to improve fiscal transparency and accountability for the Federal Government as part of the Malaysian New Economy Model

to adopt *Malaysian Public Sector Accounting Standards (MPSAS)* which are based on the equivalent International Public Sector Accounting Standards (IPSAS).

PRESENTATION OF FINANCIAL STATEMENTS ON ACRUAL BASIS



Statement of Financial Position

Statement of Financial Performance

Cash Flow Statement

Statement of Changes in Net Assets/Equity

Statement of Budget/Expenditure Performance

Accounting Policies and Notes to the Financial Statements

BENEFITS DERIVED FROM ACCRUAL ACCOUNTING SYSTEM

more transparent
and accountable

focus on cash
only can distort
the true cost of
government
expenditure

gaining better
overall credit
ratings from
critical agencies

enables users to
see the complete
financial position
and performance
of an entity

Source: JAN Research and Auditing Journal

ISSUES AND CHALLENGES FOR TRANSFORMATION

- **Strategic Planning:** Establishing project teams early, focusing on education and communications, preparing business impact analyses and establishing the right legal and regulatory framework.
- **Policies:** Changing the way in which revenues, expenses, assets and liabilities are recorded and reported will not by itself bring about the desired improvements in public administration
- **Skills:** The demand for specialised skills will substantially increase as the result of the transition.
- **Communications:** plans and protocols will need to be developed within agencies with staff and contracted consultants and between agencies and central agencies

Source: JAN Research and Auditing Journal

AUDITORS' ROLE IN THE CERTIFICATION OF CENTRAL GOVERNMENT FINANCIAL STATEMENT

Requires the Auditor General to audit the Central Government's Financial Statement

- Articles 106 and 107 of the Federal Constitution
- Audit Act 1957

National Audit Department (NAD) needs to carry out attestation audit to give an opinion

- whether the Central Government's Financial Statement for the year concerned shows a true and fair view
- that its accounting records are maintained properly and kept up to date

Audit procedures to be performed are to confirm whether the financial statements submitted are supported by documents consisting of certification of balance, individual balance and statement of reconciliation

- **Interim Audit**
- **Final Audit**

ISSUES AND CHALLENGES

- **Adoption of MPSAS:** if it is only a partial compliance of MPSAS, this may not reflect a fair and true view of the financial position and performance of the Federal Government
- **Asset Management:** the accuracy and completeness of the data kept in the system will definitely affect audit opinion under the accrual accounting in terms of valuation, existence and ownership as well as depreciation of such assets
- **Investment:** under the cash accounting, investments are recorded at cost and reflected in the memorandum account only
- There is no provision for diminishing value for investment and no disclosure for market value on quoted shares
- **Account Receivable:** complete and accurate data collection and record keeping are vital for accounts receivable to be reflected correctly in the financial statement
- Audit findings revealed that account receivables are always either overstated or understated or even omitted by various ministries and departments over the years
- **Accounts Payable:** audit findings also revealed that in many instances payment for accounts payable is only done in the following year depending on the availability of the current year's budget allocation

CONCLUSION



Formulate a comprehensive capacity building;



Review and enhance present structures in parallel with the government decision to upgrade all existing non self-accounting departments to self-accounting departments;



Work more closely with the Accountant General's Office and conduct more engagement with the ministries and departments; and



Review existing Auditing Guidelines for Financial Statement in line with International Standards of Supreme Audit Institutions (ISSAIs)



Thank You...