

# Enhancing Synergy to Face New Challenges in Public Sector Auditing

## Gearing up for IPSAS: Impact and Challenges

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Chairman, Malaysian Accounting Standards Board  
(MASB)***

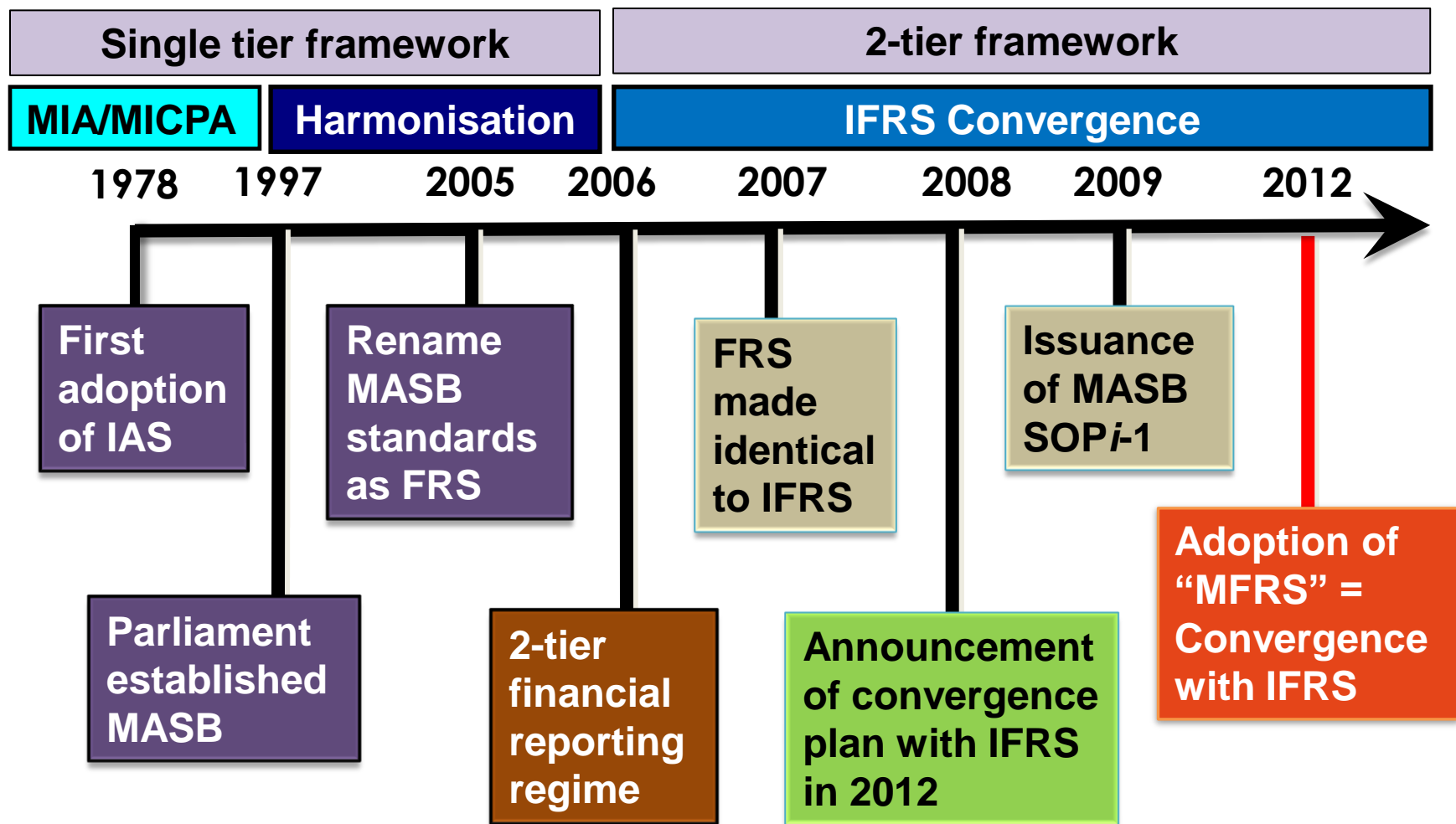
# Agenda

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- 1 – Overview of Private Sector Accounting
- 2 – IFRS Convergence: Sharing MASB experience
- 3 – Gearing up for IPSAS: Impact and Challenges

# Overview of Private Sector Accounting

# The Journey of Private Sector Accounting Standards



**\*\*MFRS = IFRS**

# Framework – Prior to 1997

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- **Standard issuing bodies:** *Malaysian Institute of Accountants (MIA) & Malaysian Institute of Certified Public Accountants (MICPA)*
- **The Standards comprised:** Adopted International Accounting Standards (IASs) & Malaysian Accounting Standards (MAS)
  - 1978 - MICPA adopts IAS 1 to IAS 4
  - 1979-1986 - MICPA adopts 13 IASs
  - 1987 - MIA adopts all IASs adopted by MICPA
  - 1989-1992 - MICPA and MIA jointly adopt IASs
  - 1992-1997 - MICPA and MIA operate separate standard-setting process
- **No legal power to enforce compliance**
- **As at 31 December 1996 issued:** 8 MASs, 24 IASs, 8 technical bulletins

# Birth of FRF and MASB

- **1997** - Parliament gazetted Financial Reporting Act 1997
- **Birth** of Financial Reporting Foundation (FRF) & Malaysian Accounting Standards Board (MASB)
- **Accounting Standards now have the force of law**



# Framework – Post 1997

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## Section 26D of Financial Reporting Act 1997:

Financial statements that are lodged with the Securities Commission, Bank Negara or Registrar of Companies are **mandated by law to comply with accounting standards issued by MASB**

*[Please refer to full text of Section 26D of the FRA 1997 (Financial Reporting (Amendment) Act 2012)]*

# Framework – Post 1997 (Cont'd)

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## Section 26B of Financial Reporting Act 1997:

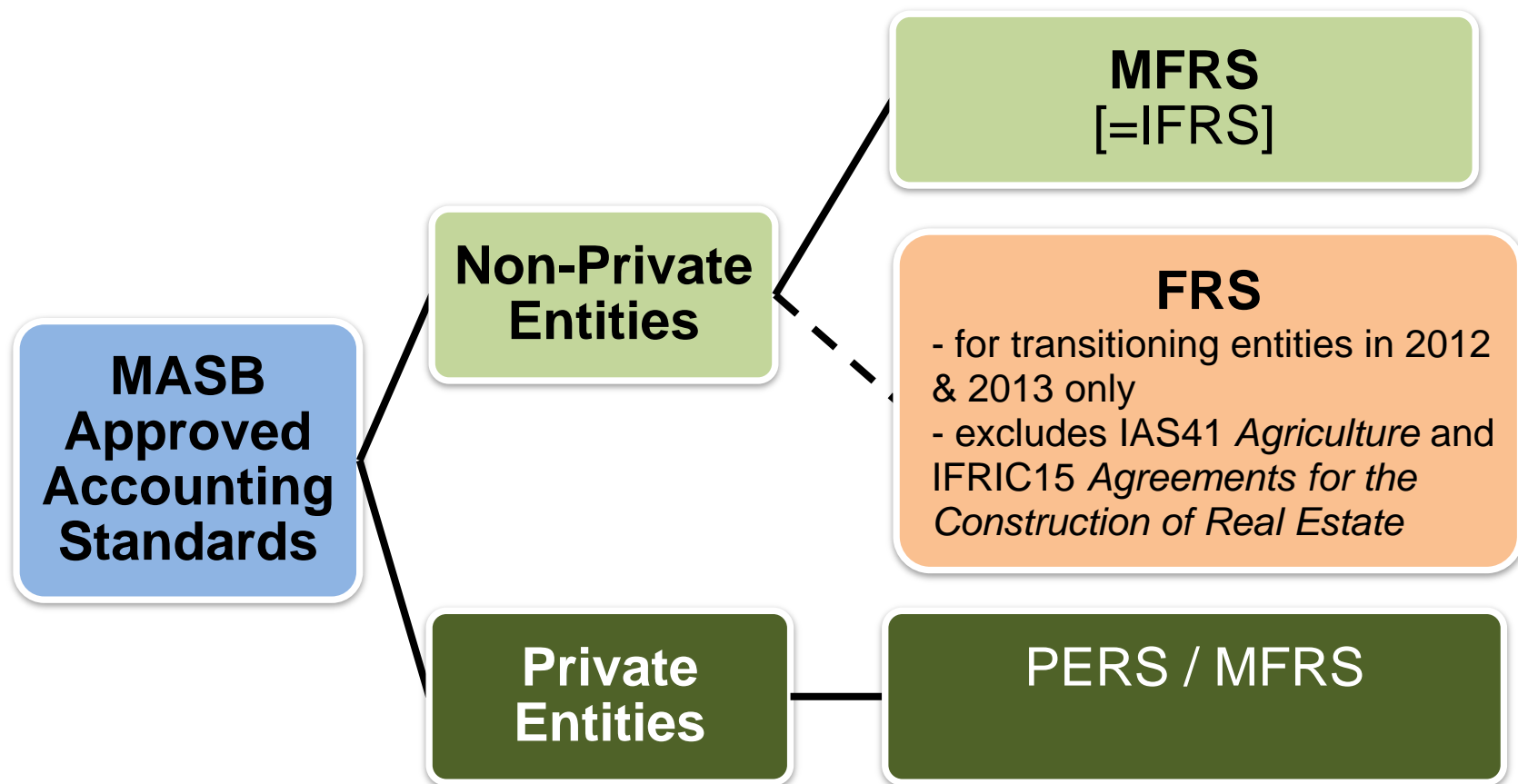
Foreign companies listed on Bursa Malaysia, can apply **either**:

- standards issued by MASB; **or**
- international standards recognised by MASB, namely standards issued by:
  - International Accounting Standards Board (IASB)
  - Financial Accounting Standards Board (USA)
  - Accounting Standards Board (UK) and
  - Australian Accounting Standards Board (AASB)



# IFRS Convergence: Sharing MASB Experience

# Two-tier Financial Reporting Framework

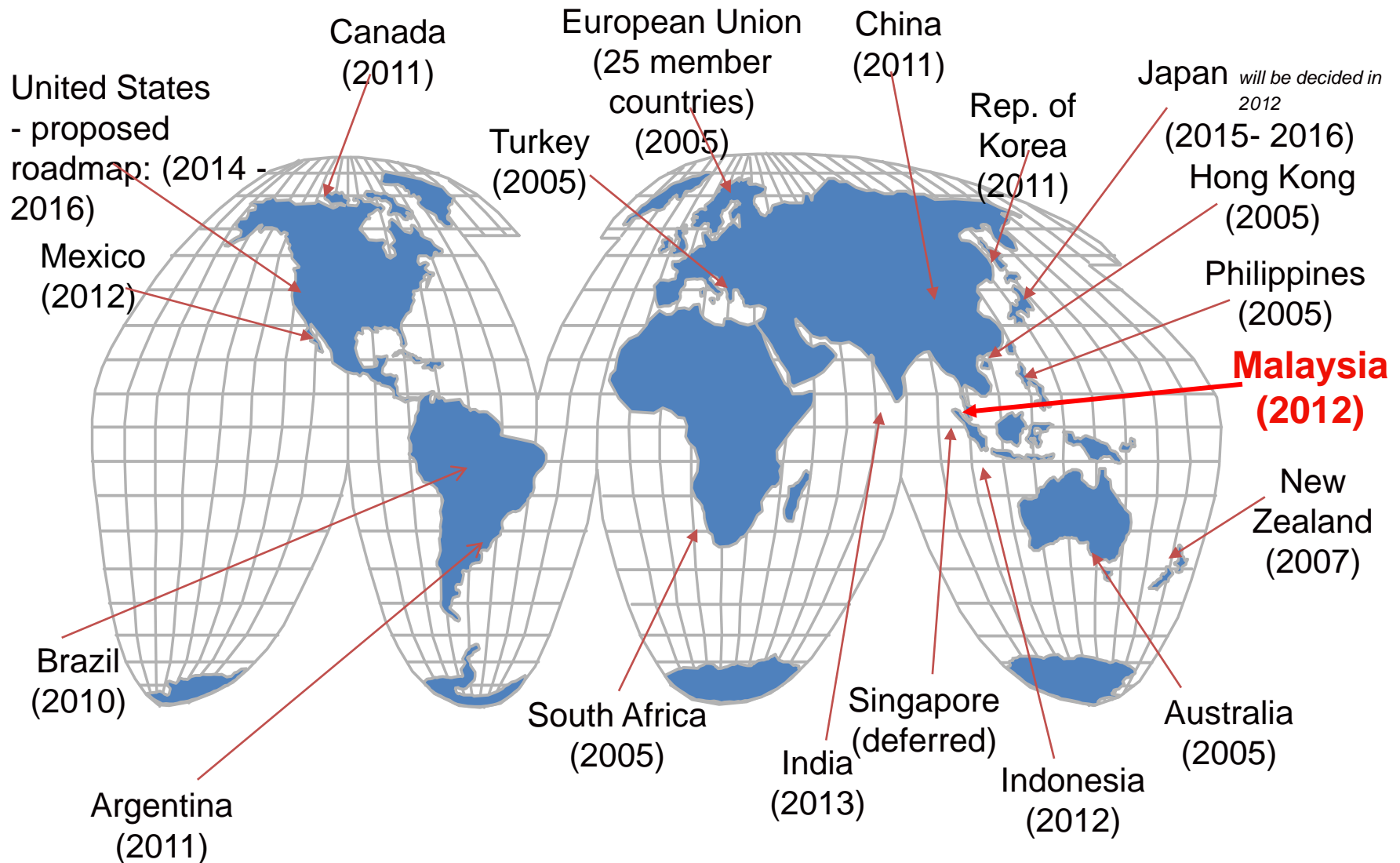


# Why did we converge with IFRSs?

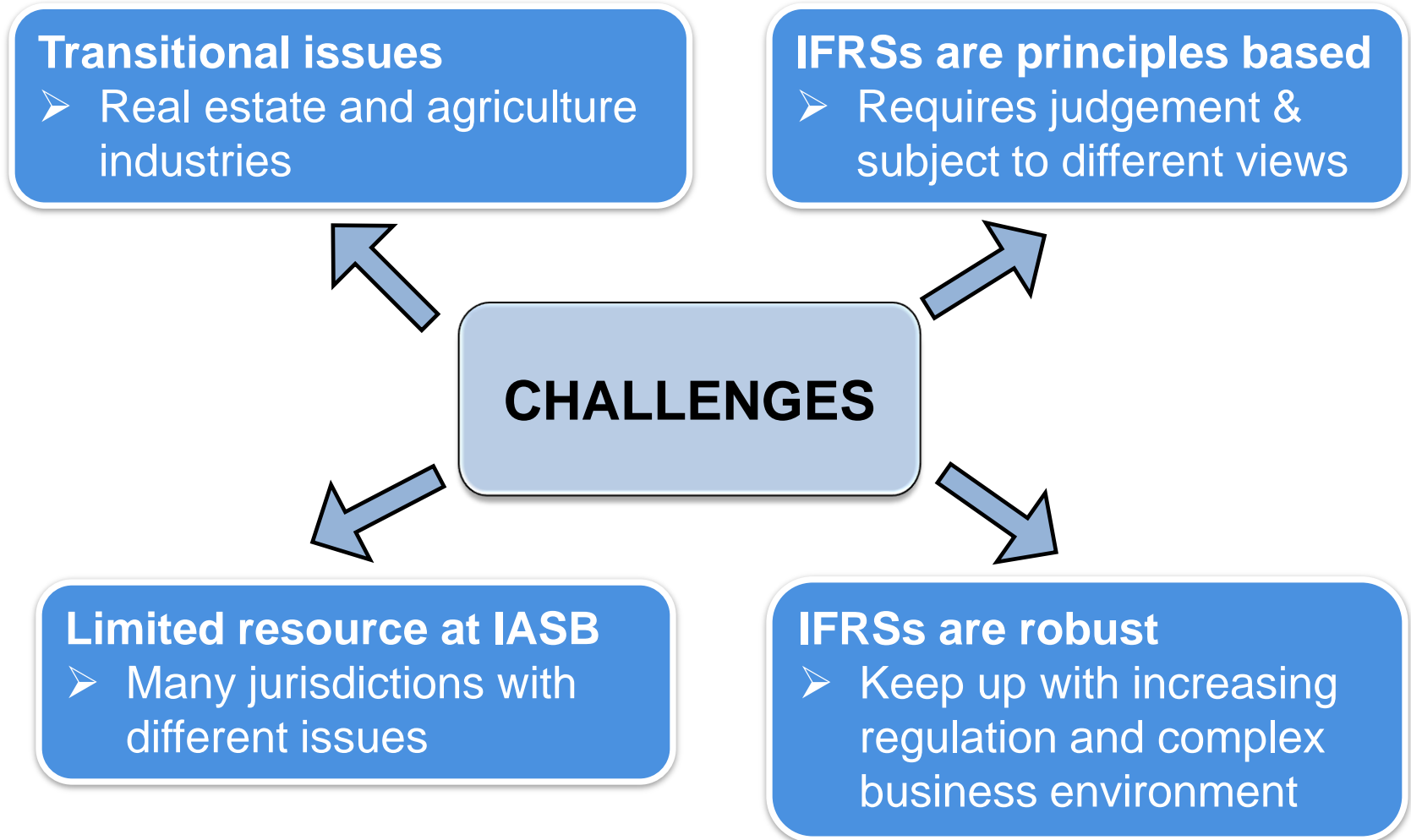
- Familiar with IAS - Malaysia has been using IAS since the '70s
- Improve global competitiveness – level playing field with international giants
- Gaining access to more sources of capital and opportunities
- To gain more recognition for Malaysian companies and the capital market
- Used by more than 100 countries



# Global IFRS Convergence at a glance



# IFRS convergence – Challenges



# IFRS convergence – How to deal with challenges?

- **Local stakeholders engagement**

- **Education**

- Participate in Ministry of Higher Education Hala Tuju 3 discussions
- Master-classes
- IFRS e-learning
- Technical articles

- **Other stakeholders**

- Convergence Task Force
- Monthly teleconference
- Participate in CTIM-MIA-MICPA Joint Tax Working Group discussions with IRB and MOF
- Outreach
  - IFRS conference, video conference with IASB staff, roundtable meetings

# IFRS convergence – How to deal with challenges?

## ■ International participation

- To be more involved in international arena so as to contribute to the development and our views be heard when IFRS being developed
- MASB over last few years have been very active in pursuing Malaysia's issues
- MASB is represented in
  - ✓ IASB Emerging Economies Group (*emerging economies of G20 plus Malaysia*)
  - ✓ IASB Working Group on Employee Benefits
  - ✓ AOSSG Chairman Advisory Committee

MASB leads AOSSG Working Group on Islamic Finance and co-lead Working Group on Agriculture; MASB is also member of another 8 Working Groups

# IFRS convergence – How to deal with challenges?

- **Transitional arrangement**

- **What's the Transitioning Arrangement?**

- Entities within the scope of IFRIC 15 Agreements for the Construction of Real Estate and IAS 41 Agriculture have option to apply FRSs in 2012 and 2013
    - Entities that consolidate / equity accounts / proportionately consolidate such entities that have opted for FRSs can also opt for FRSs
    - Shall apply MFRS Framework in 2014

- **Why the Transitioning Arrangement?**

- Possible imminent change to IAS 41 and IFRIC 15



# Gearing up for IPSAS: Impact and Challenges

# IPSASs with MFRS (=IFRS) Equivalents

## International Public Sector Accounting Standards

IPSAS	Title	Related MFRS
IPSAS 1	Presentation of Financial Statements	MFRS 101
IPSAS 2	Cash Flow Statement	MFRS 107
IPSAS 3	Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies	MFRS 108
IPSAS 4	The Effect of Changes in Foreign Exchange Rates	MFRS 121
IPSAS 5	Borrowing Costs	MFRS 123
IPSAS 6	Consolidated Financial Statements and Accounting for Controlled Entities	MFRS 127
IPSAS 7	Accounting for Investments in Associates	MFRS 128
IPSAS 8	Financial Reporting of Interests in Joint Ventures	MFRS 131
IPSAS 9	Revenue in Hyperinflationary Economies	MFRS 118
IPSAS 10	Financial Reporting in Hyperinflationary Economies	MFRS 129
IPSAS 11	Construction Contracts	MFRS 111
IPSAS 12	Inventories	MFRS 102
IPSAS 13	Leases	MFRS 117
IPSAS 14	Events After the Reporting Date	MFRS 110

# IPSASs with MFRS (=IFRS) Equivalents

## International Public Sector Accounting Standards

IPSAS	Title	Related MFRS
IPSAS 15	Financial Instruments: Disclosure and Presentation	MFRS 132
IPSAS 16	Investment Property	MFRS 140
IPSAS 17	Property, Plant and Equipment	MFRS 116
IPSAS 18	Segment Reporting	MFRS 8
IPSAS 19	Provisions, Contingent Liabilities and Contingent Assets	MFRS 137
IPSAS 20	Related Party Disclosures	MFRS 124
IPSAS 21	Impairment of Non-Cash Generating Assets	MFRS 136
IPSAS 25	Employee Benefits	MFRS 119
IPSAS 26	Impairment of Cash-Generating Assets	MFRS 136
IPSAS 27	Agriculture	MFRS 141
IPSAS 28	Financial Instruments: Presentation	MFRS 132
IPSAS 29	Financial Instruments: Recognition and Measurement	MFRS 139
IPSAS 30	Financial Instruments: Disclosure	MFRS 7
IPSAS 31	Intangible Assets	MFRS 138

# IPSASs without MFRS (=IFRS) Equivalents

International Public Sector Accounting Standards	
<b>IPSAS 22</b>	Disclosure of Financial Information About the General Government Sector
<b>IPSAS 23</b>	Revenue from Non-Exchange Transactions (Taxes and Transfers)
<b>IPSAS 24</b>	Presentation of Budget Information in Financial Statements
<b>IPSAS 32</b>	Service Concession Arrangements: Grantor

# Examples of Differences between IPSAS and IFRS

IPSAS	Some key differences from IFRS
IPSAS 1 Presentation of Financial Statements	<ul style="list-style-type: none"> <li>- Does not explicitly preclude the presentation of items of revenue and expenses as extraordinary items</li> </ul>
IPSAS 11 Construction Contracts	<ul style="list-style-type: none"> <li>- The requirement to recognise an expected deficit on a contract immediately it becomes probable that contract costs will exceed total contract revenues applies only to contracts in which it is intended at inception of the contract that contract costs are to be fully recovered from the parties to that contract</li> </ul>
IPSAS 12 Inventories	<ul style="list-style-type: none"> <li>- Where inventories are provided at no charge or for a nominal charge, they are to be valued at the lower of cost and current replacement cost</li> </ul>

# Examples of Differences between IPSAS and IFRS

IPSAS	Some key differences from IFRS
IPSAS 16 Investment Property	<ul style="list-style-type: none"> <li>- Where an asset is acquired for no cost or for a nominal cost, its cost is its fair value at the date of acquisition</li> </ul>
IPSAS 17 Property, Plant and Equipment	<ul style="list-style-type: none"> <li>- Optional treatment for heritage assets, i.e. does not require or prohibit recognition of heritage assets</li> <li>- When an item is acquired at no cost, or for a nominal cost, its cost is its fair value at the date it is acquired</li> </ul>
IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets	<ul style="list-style-type: none"> <li>- Obligations arising from social benefits provided by an entity for which it does not receive approximately equal consideration in return are excluded from the scope of the standard</li> </ul>

# National Governments around the world



- Governments that **apply full accrual accounting standards that are broadly consistent with IPSAS** includes Australia, Canada, France, New Zealand, United Kingdom and United States.
- National governments that have **adopted IPSAS** includes Austria, Costa Rica, Kenya, Peru, Philippines, Switzerland and Vietnam.
- Countries that have **plans to adopt IPSAS** includes Abu Dhabi, Argentina, Cambodia, Chile, Kazakhstan, Kuwait, Sri Lanka, Turkey, United Arab Emirates and Vietnam,

Source: IPSAS Fact Sheet April 2012 from IPSAS website.

# Benefits through Adoption of Accrual-based IPSAS

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- **Greater transparency** due to more comprehensive and precise information on the use of resources and on the status of liabilities
- Strengthened **accountability and credibility** through more frequent, accurate and complete financial reporting
- **Improved management and planning**
- **Strengthen the support for results-based management** through the provision of more comprehensive information on costs
- **Harmonisation of financial reports and statements** across public institutions



# Some Transitional Accounting Issues

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## Identification of assets

## Valuation of assets

- Heritage assets (e.g. museum artefacts)
- Government land (Federal / State / Federal land Commissioners)
- Public utilities

## Valuation of liabilities

- Employee pensions and retirement benefit

## Disclosure of sensitive information

- Military or security forces assets (National security?)

# Challenges to accounting and auditing - general

- Lack of IPSAS qualified accountants
- Rapid change in IFRSs may result in changes to IPSAS (see next slide)
- Technically demanding world
- IPSAS are principles based
  - greater use of judgement
  - need to understand the "why" not just the "what" of standards
- Current audit methodology



# Challenges to accounting and auditing - specific

## Accounting

- Running both modified cash and accrual accounting in parallel during the conversion period
- New IFRS concepts to be learned
  - materiality
  - substance over form
  - fair value
  - consolidation
- New roles and accountability – each ministry will need a “CFO”
- The shifting of accounting decision to the business side – i.e. impairment of assets and accrual of expenses



# Challenges to accounting and auditing - specific

## Auditing

- Involvement of auditors early to understand and agree on certain conversion concepts and strategies
- New financial statements components to audit – Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Asset/Equity, Cash Flow Statements, Disclosure Notes



# Challenges to accounting and auditing - specific

## Auditing

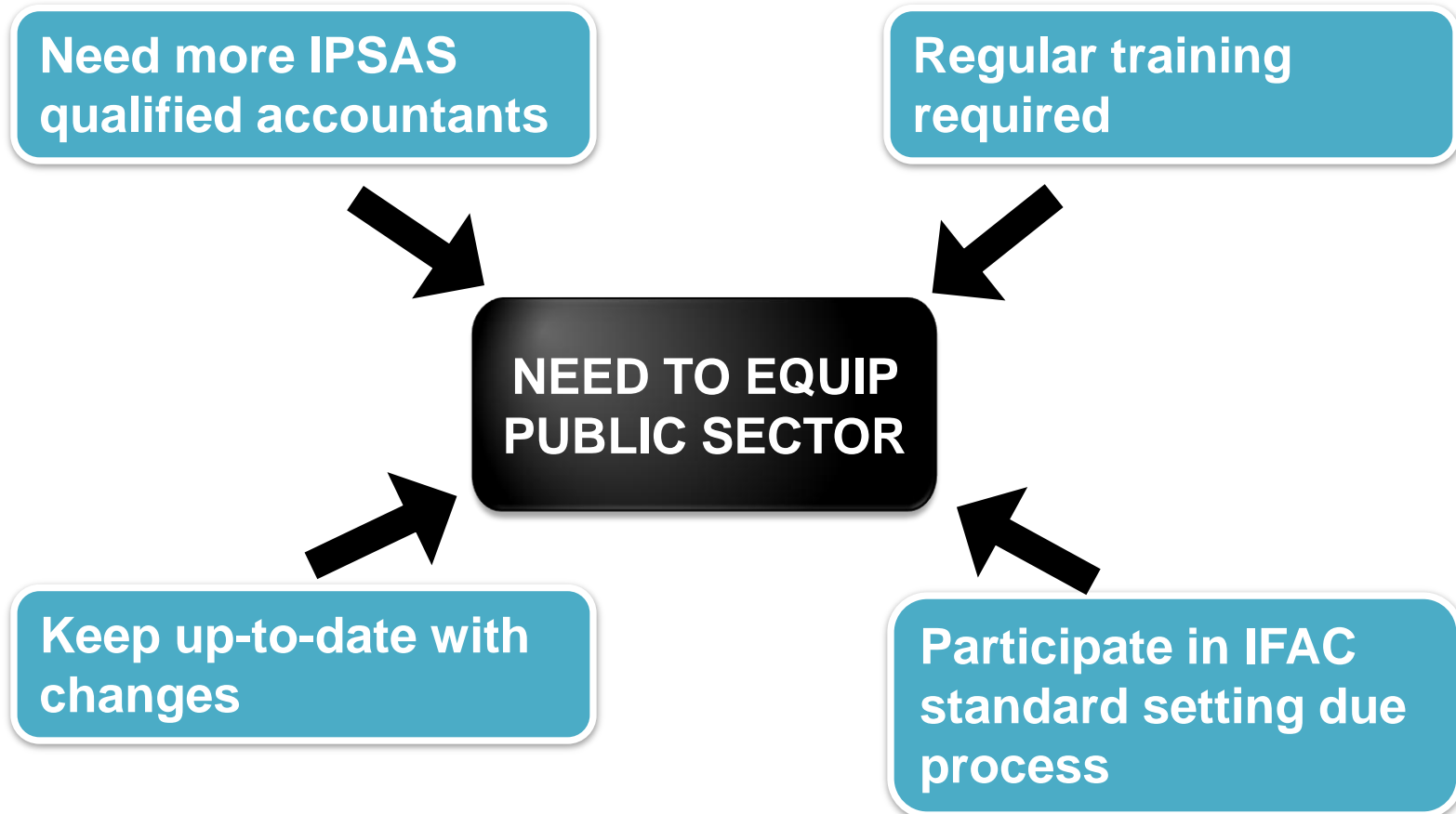
- New audit skills required – understanding of fair value models used and challenging judgment used on estimates
- New auditable areas
  - fixed asset existence, value and impairment
  - debtors completeness and recoverability
  - creditors completeness and cut-off
  - contingent liabilities assessment
  - component areas consolidated from the private sector
  - assessment of long term liabilities



# IPSASB Active Projects

IPSASB	Projects
<div>Active</div> <div>Recently Completed</div>	
<b>Alignment of IPSASs and Public Sector Statistical Reporting Guidance</b> To further enhance and promote the harmonization of public sector accounting standards and statistical reporting standards for the public sector. <b>Contact:</b> Gwenda Jensen <a href="#">Read more</a>	<b>Public Sector Combinations (formerly Entity Combinations)</b> <b>Contact:</b> Annette Davis <a href="#">Read more</a>
<b>Cash Basis Review</b> The main objective of the project is to identify any major difficulties that public sector entities have encountered in implementing the Cash Basis IPSAS Financial Reporting under the Cash Basis of Accounting and determine whether the IPSAS should be modified or if further guidance should be provided by the IPSASB. As part of the review process, the IPSASB asked those who have been involved in the adoption of the Cash Basis IPSAS in developing economies to complete a questionnaire on their experiences with respect to implementation issues. These materials were also available in Spanish and French. <b>Contact:</b> Paul Sutcliffe <a href="#">Read more</a>	<b>Public Sector Conceptual Framework</b> The objective of the project is to develop a Public Sector Conceptual Framework which is applicable to the preparation and presentation of general purpose financial reports of public sector entities. <b>Contact:</b> John Stanford <a href="#">Read more</a>
<b>Financial Statement Discussion and Analysis (formerly Narrative Reporting)</b> <b>Contact:</b> Annette Davis <a href="#">Read more</a>	<b>Reporting on the Long-Term Sustainability of Public Finances</b> To produce a framework for the reporting and disclosure of information related to the long-term fiscal sustainability of governmental programs. <b>Contact:</b> John Stanford <a href="#">Read more</a>
<b>First-Time Adoption of Accrual Basis IPSASs</b> <b>Contact:</b> Stephenie Fox <a href="#">Read more</a>	<b>Reporting Service Performance Information</b> <b>Contact:</b> Stephenie Fox <a href="#">Read more</a>
<b>Heritage Assets</b> This project aims to develop accounting and disclosure requirements for heritage assets. <b>Contact:</b> John Stanford <a href="#">Read more</a>	<b>Revision of IPSASs 6-8</b> <b>Contact:</b> Stephenie Fox <a href="#">Read more</a>
	<b>Social Benefits</b> The objective of the project is to identify the circumstances and manner in which expenses and liabilities of certain social benefits of governments should be reflected in the financial statements. <b>Contact:</b> John Stanford <a href="#">Read more</a>
	<b>Updating IPSASs (Tracking Table posted to the internet September 2012)</b> To improve convergence between selected IPSASs and the related International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) to the extent appropriate for the public sector.

# Impact to accounting and auditing



# Thank you