



The National Public Sector Accountants Conference

Transitioning to a New Public Sector Accounting Landscape

Implementing Accruals and the Impact on Budgeting

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Ministry of Finance
Malaysia

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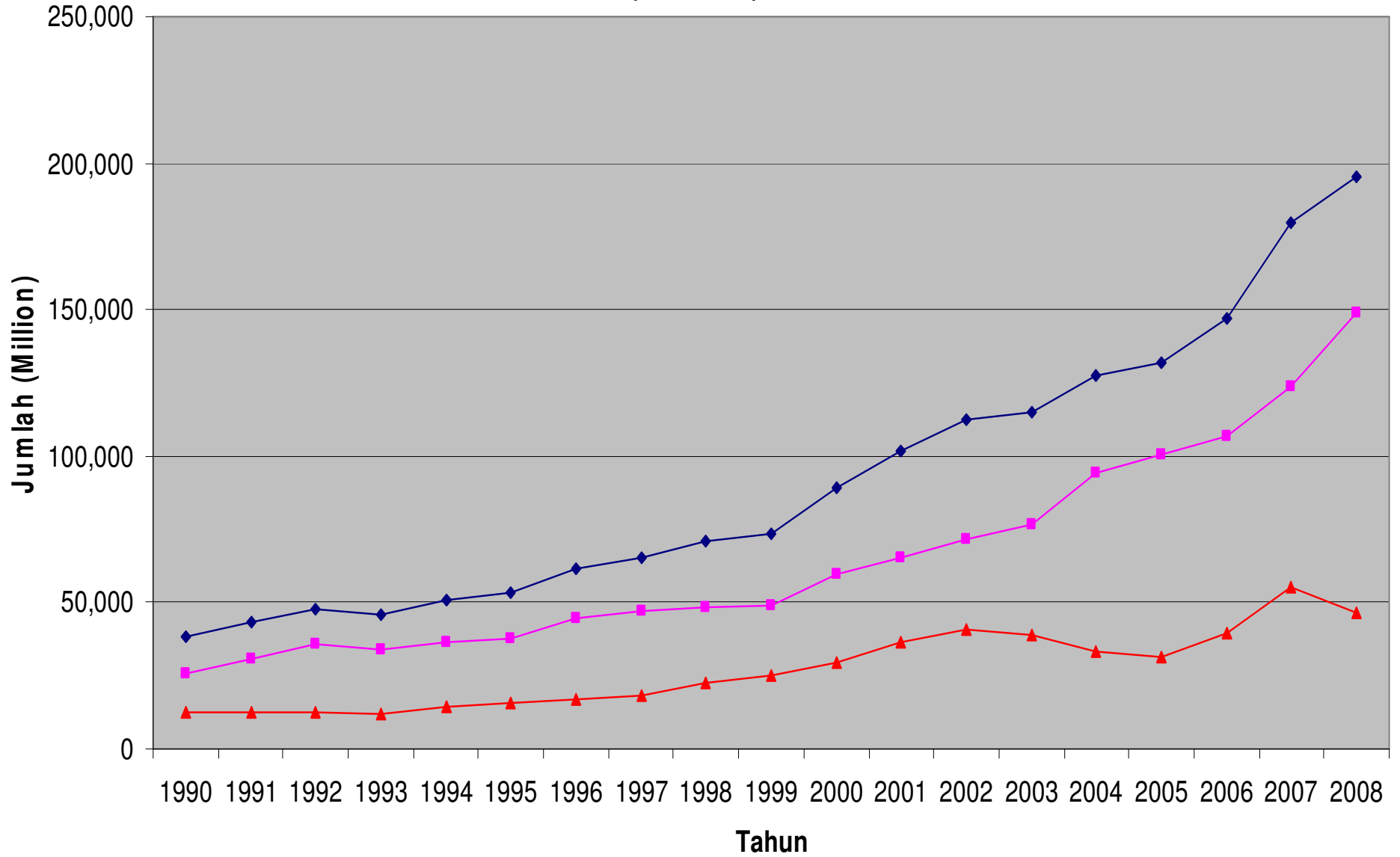
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Fiscal Challenges

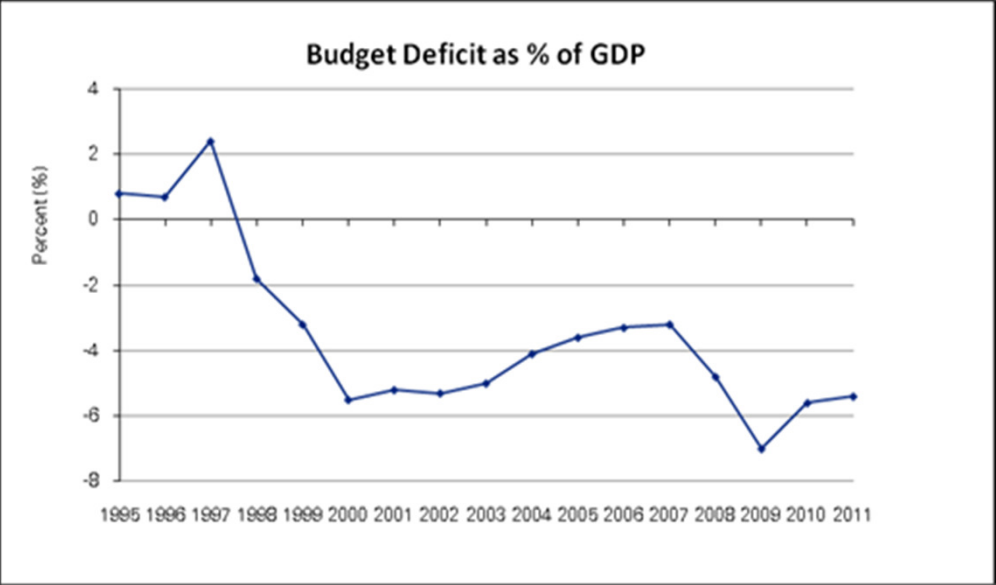
**Trend Peruntukan Belanja Mengurus dan Pembangunan
(1990-2008)**



◆ Jumlah Peruntukan ■ Peruntukan OE ▲ Peruntukan DE



Public Finance in Malaysia



Federal Debt

Setting Our Ambitions

TOWARDS A HIGH INCOME ECONOMY

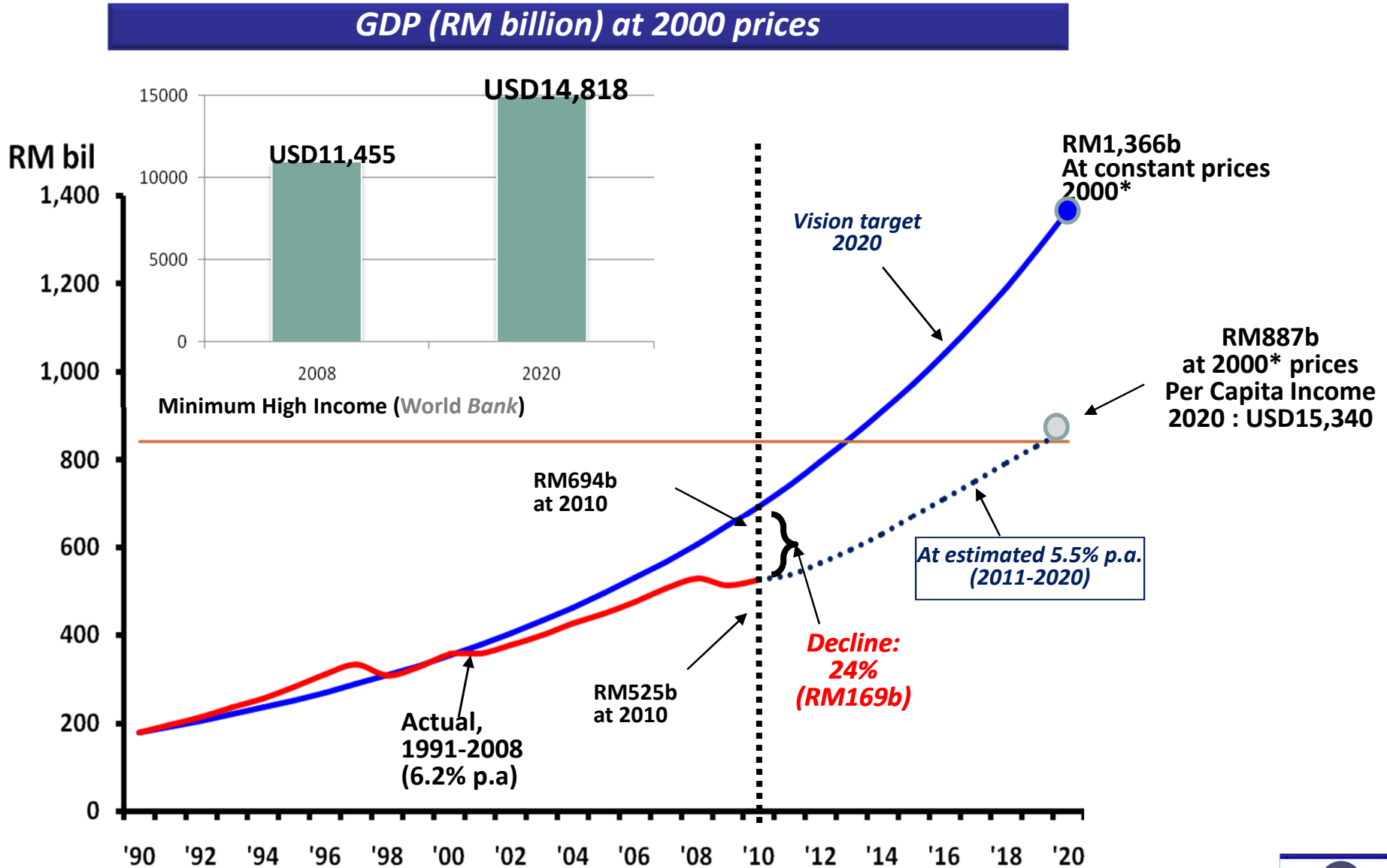
Per Capita Income (USD\$)	1990	2009	2020 ^f
HIC (Average)	18,352	37,970	56,535
HIC (Minimum)	7,620	12,196	15,089
US	23,250	46,360	72,294
UK	16,600	41,370	74,506
Australia	17,470	43,770	69,133
Singapore	12,050	37,220	60,597
Korea	6,000	19,820	37,128
Turkey	2,220	8,720	18,187
Malaysia	2,390	7,350	15,000- 17,000

Sumber: Bank Dunia

^f : unjuran UPE

To achieve Vision 2020

...need to get back on track



Source : EPU

OBB Project Team, Ministry of Finance, Malaysia



RMKe-10: Supply Side (% annual growth)

Sector	RMKe-9 2006-10	RMKe-10 2011-15
	Estimates	Targets
GDP	4.2	6.0
Agri, Forestry and Fisheries	3.0	3.3
Mining and Quarrying	-0.5	1.1
Manufacturing	1.3	5.7
Construction	4.4	3.7
Services	6.8	7.2
Elektric, gas and water	3.1	4.1
Wholesale, retail, hospitality	7.7	8.3
Transport and Communication	6.2	7.5
Finance, Insurance, land assets and buisness services	8.0	8.3
Public Services	6.3	3.4
Other Services	5.0	5.8

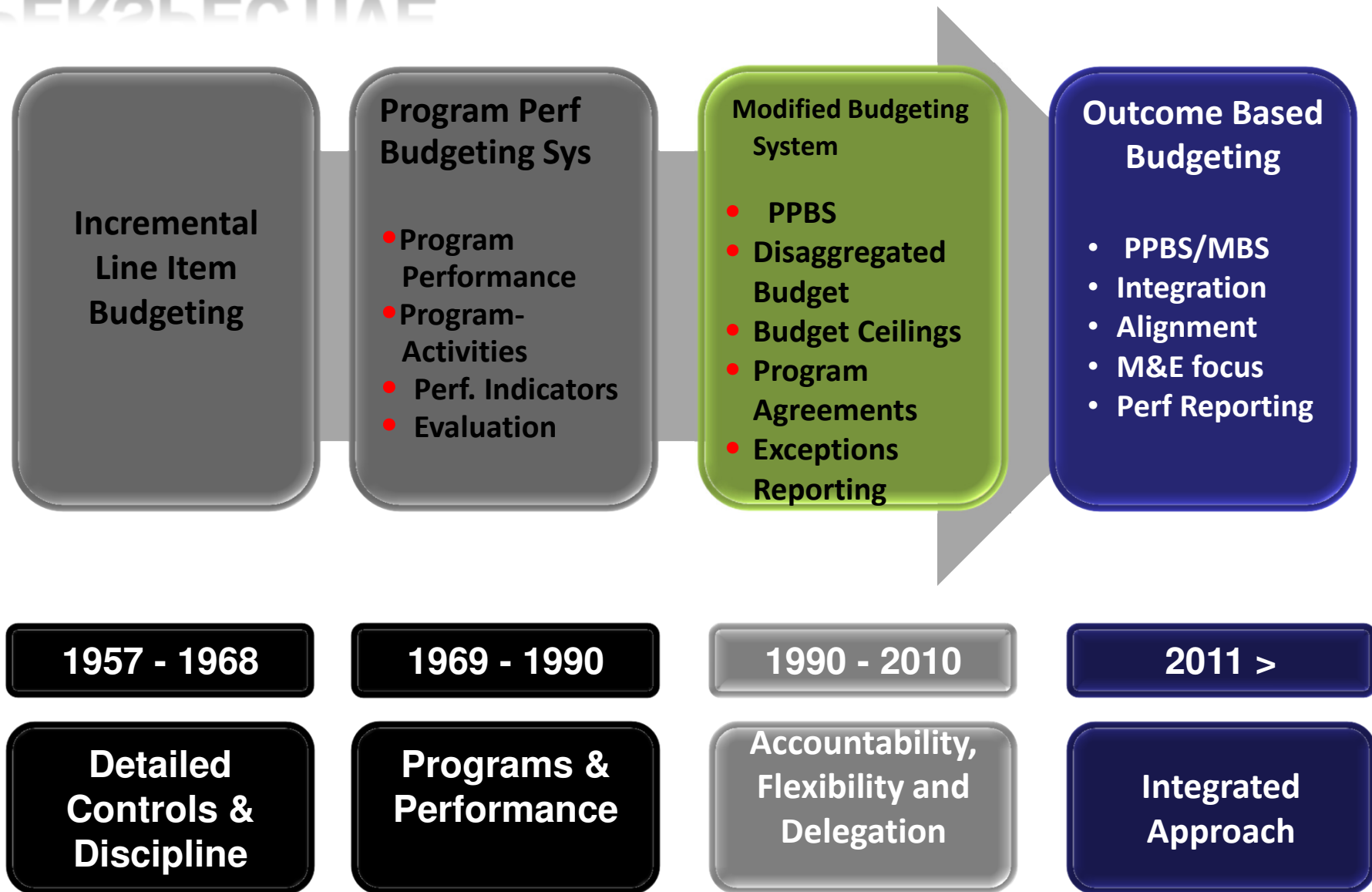
RMKe-10: Demand Side (% growth per annum)
Pte sector Investment Growth at 12.8% setahun



Komponen	RMKe-9 2006-10	RMKe-10 2011-15
	Estimates	Targets
GDP	<i>4.2</i>	<i>6.0</i>
Consumption	<i>6.1</i>	<i>7.2</i>
Public	<i>4.8</i>	<i>4.8</i>
Private	<i>6.5</i>	<i>7.7</i>
Investment	<i>4.1</i>	<i>8.9</i>
Public	<i>6.2</i>	<i>5.0</i>
Private	<i>2.0</i>	<i>12.8</i>
Export	<i>1.8</i>	<i>7.2</i>
Import	<i>2.8</i>	<i>8.6</i>

Addressing Fiscal Challenges; Expenditure Management

MALAYSIA'S BUDGETING SYSTEM IN PERSPECTIVE



Weaknesses in the Current Budgeting System

- **Fiscal Challenges - rationalizing expenditure management**
- **Need to Shift Focus From Outputs to Outcomes**
- **Lack of Vertical Integration-Limited Strategic Alignment from National Priorities**
- **Lack of Horizontal Integration, Existence of Silos**
- **Overlapping Programs, Increasing Redundancy**
- **Cross Cutting Issues Among Agencies**
- **Focus on Compliance as Opposed to Performance**
- **Lack of Systematic Monitoring System and Poor information system**
- **Assignment of Accountability for Results**
- **Dichotomous Budgeting**
- **Evaluation done on an ad hoc basis**

Moving Forward: Managing Growth through Effective and Efficient Expenditure

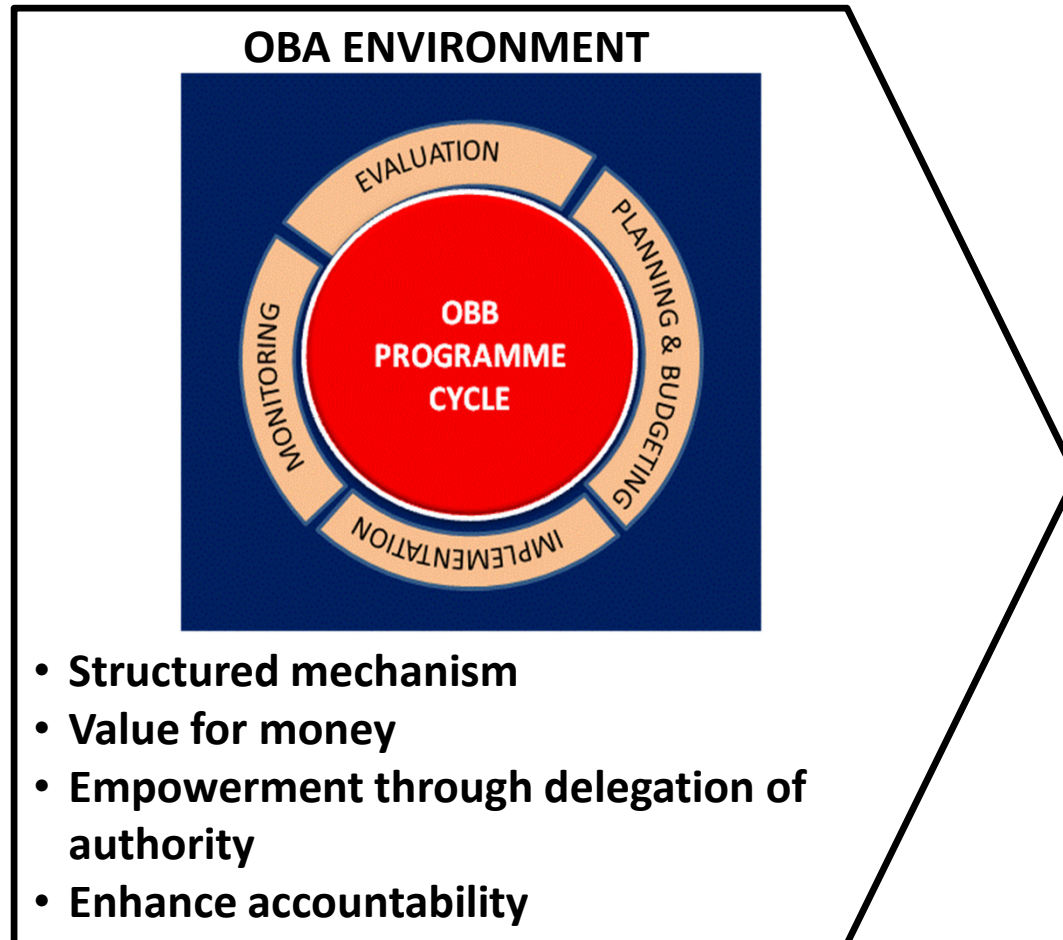
NATIONAL TRANSFORMATION



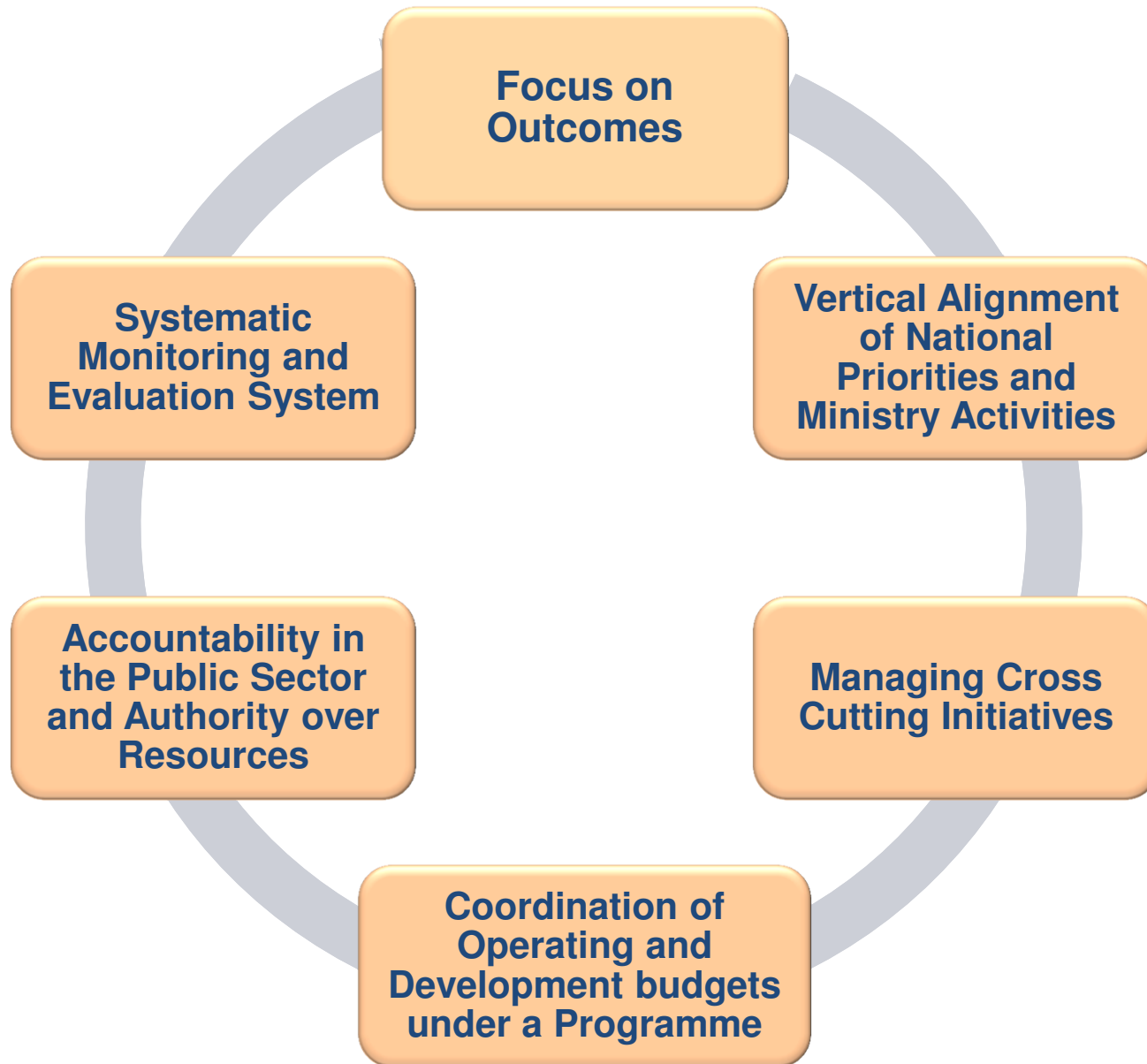
Sumber: Model Baru Ekonomi

OBB Project Team, Ministry of Finance, Malaysia

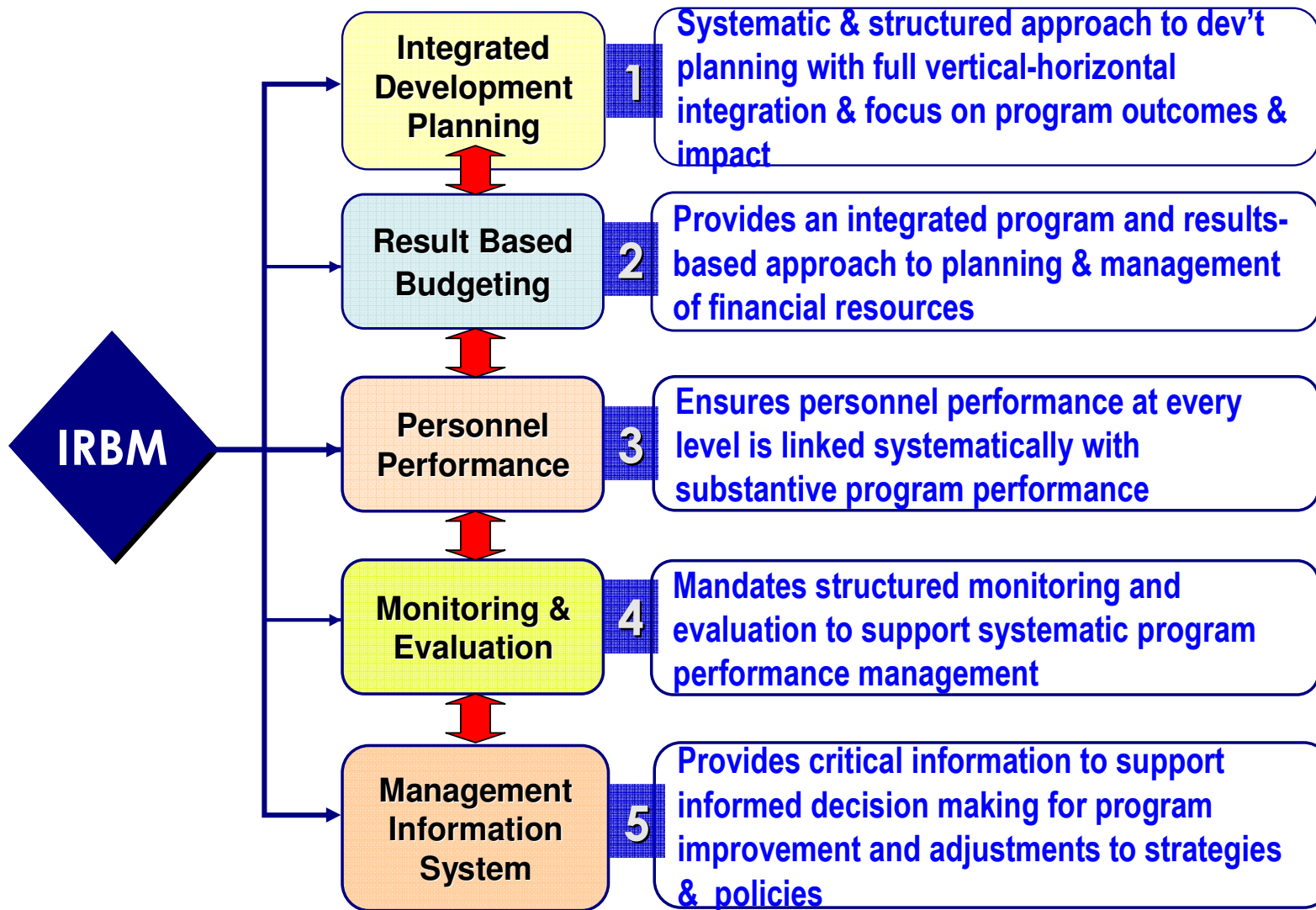
OBA & OBB linking the National Transformation Pillars (IMPLEMENTATION to RESULTS)



TRANSFORMATION LEVERS



Integrated Results-Based Management: 5 Main Components



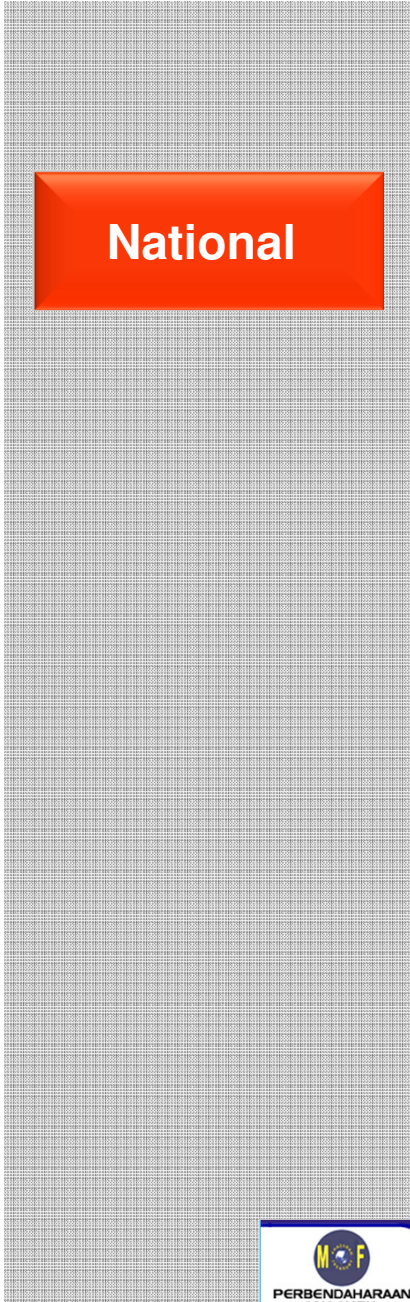
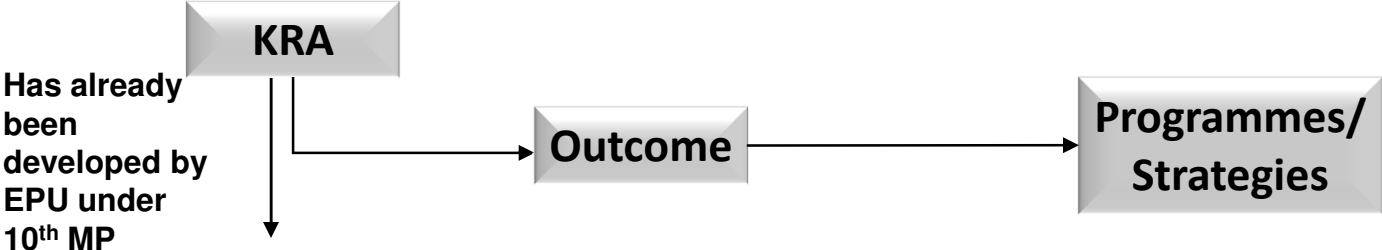
Linking Planning to Resourcing

PROGRAMMES AND BUDGET

Integrated national plans to achieve long term objectives

National programmes needed to achieve integrated national plans

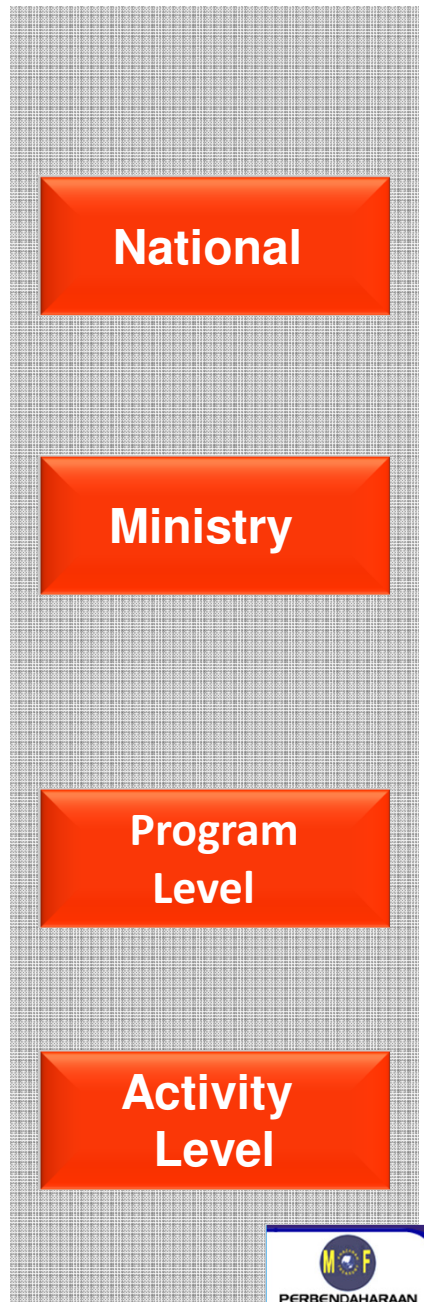
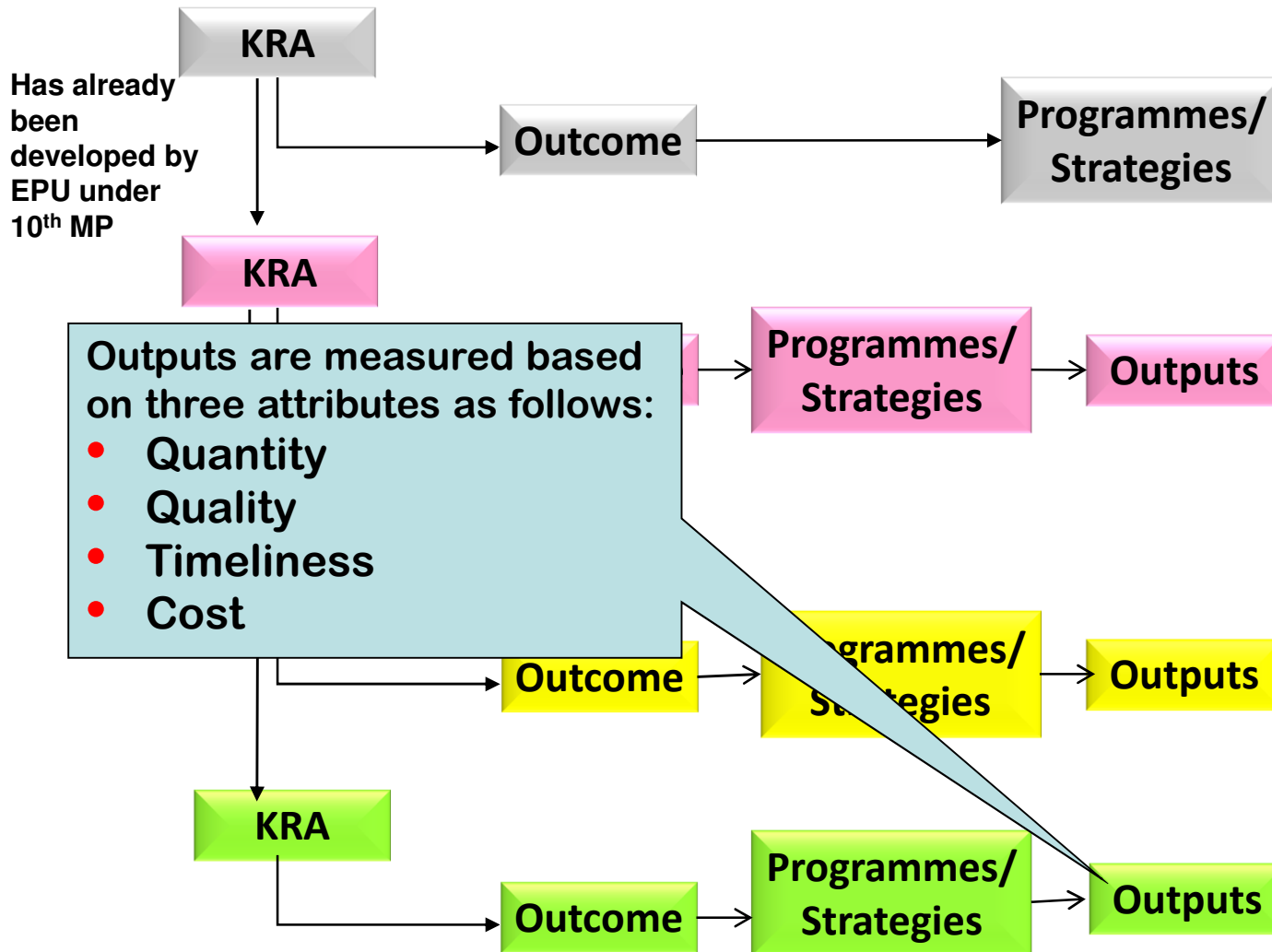
BUILDING THE RESULTS FRAMEWORK



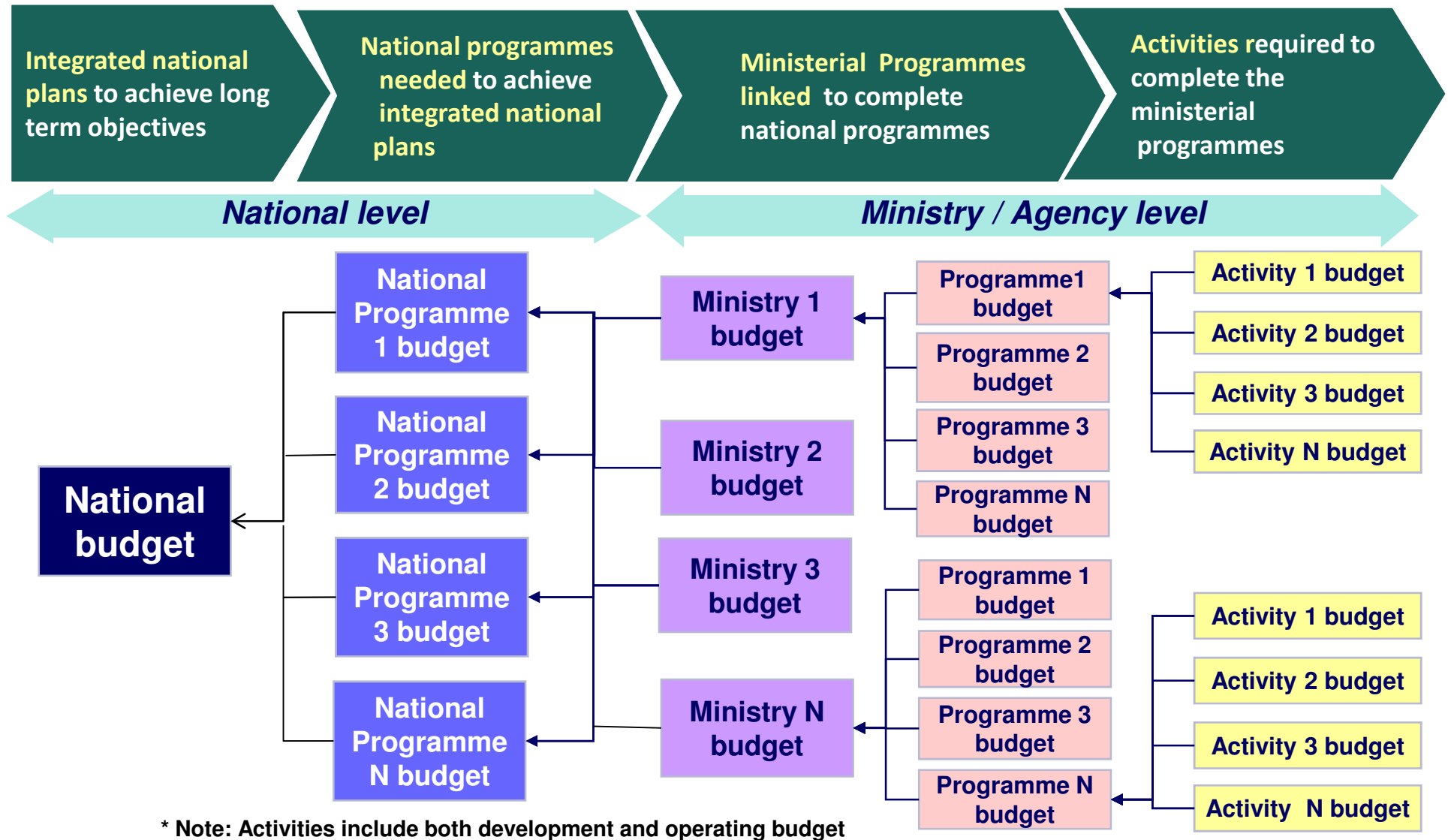
PROGRAMMES AND BUDGET



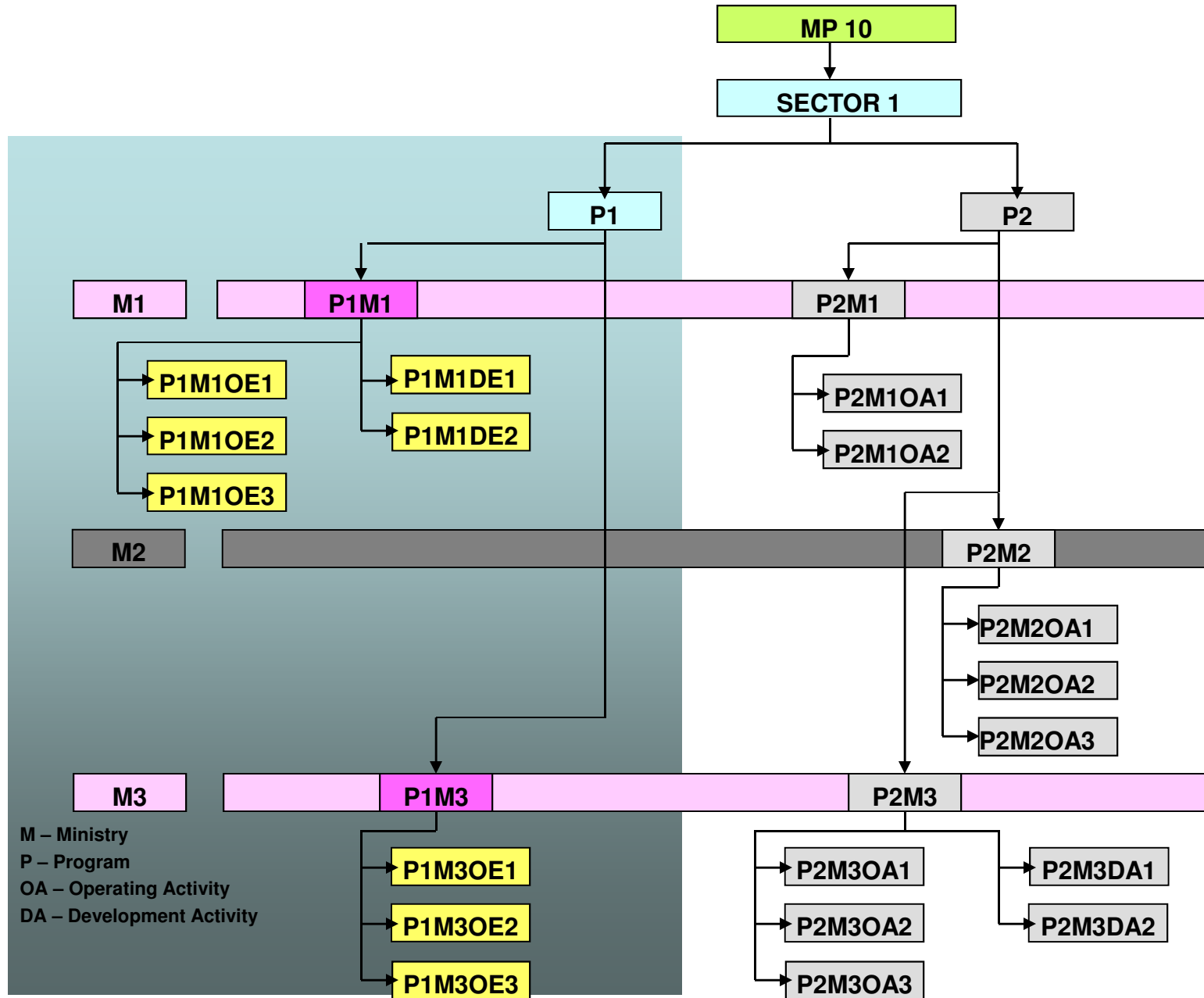
BUILDING THE RESULTS FRAMEWORK



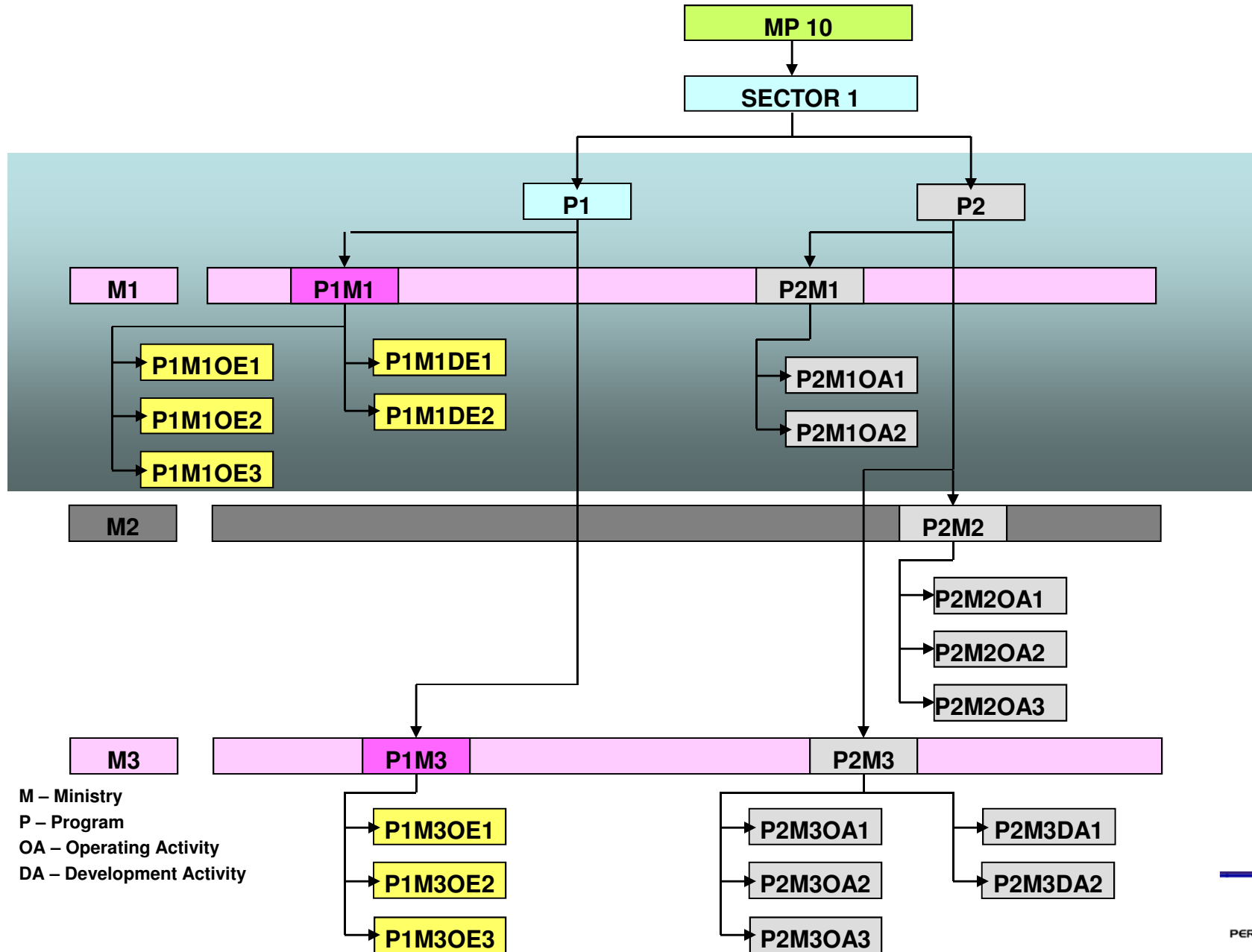
PROGRAMMES AND BUDGET



Matrix View of an Integrated OBB



Matrix View of an Integrated OBB



Accruals and Resourcing

Accrual Accounting

Overview

Migration to accrual accounting has been stipulated as a **policy measure in the NEM Report**. The adoption will put the Malaysian public sector public finance practice to be in line with the developed countries and well in line with the aspiration of the Malaysian Government of attaining developed nation status with the drive for “People first, performance now”.

Case for change

- Accrual accounting will facilitate the costing of resources, which is essential to the effectiveness of Outcome Based Budgeting in promoting the **sustainability** of fiscal policies
- Accrual accounting will add depth to the accountability and transparency of the management of public sector resources

Growing Worldwide Trend

Financial markets and credit rating agencies are particularly interested in the **sustainability** of financing and expenditure policies. The IMF contends that accrual financial statements provide greater information for analyzing the sustainability of fiscal policy and the quality of fiscal decision making.

The adoption of accrual accounting in Malaysia will assist in the rigorousness of performance reporting of the programmes since it can provide multiple reporting dimensions from which managers can make better and informed dimensions.

Accrual accounting provides the data and information that enables to generate costing information for program evaluation. Activity Based Costing (ABC) approach can help evaluate the efficiency and effectiveness of Ministries' programs in pursuing the respective outcomes. The cost information can help to evaluate the options to the provision of public services such as healthcare and education.

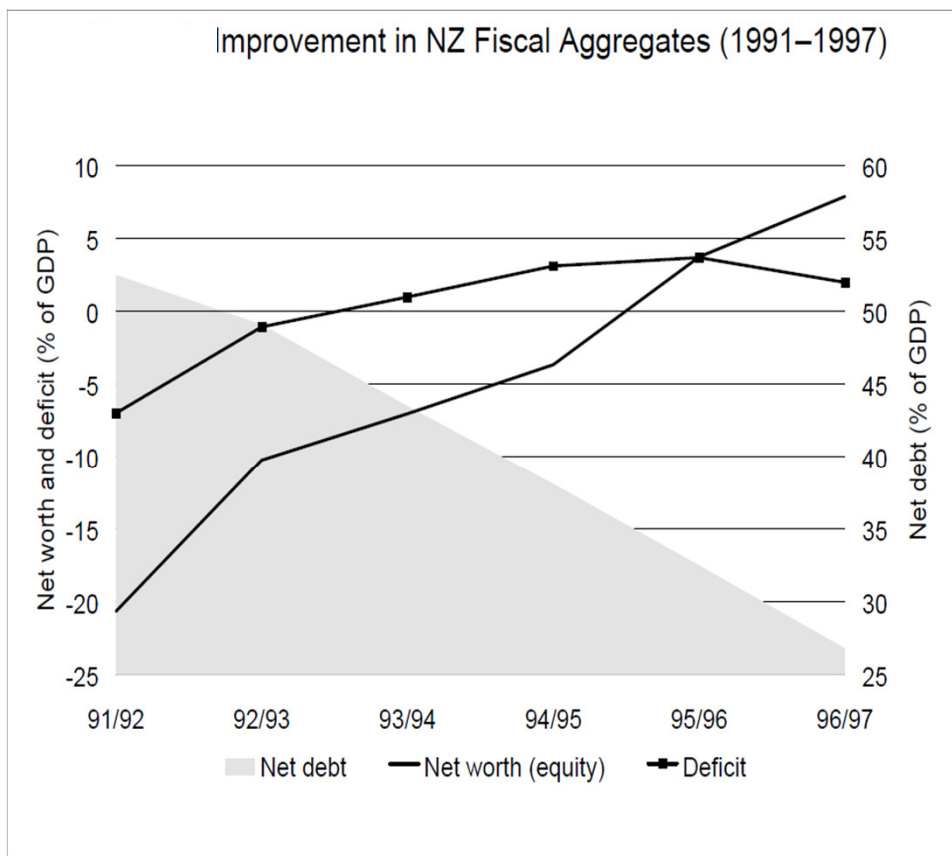
Will it Help in Fiscal Challenges

DEVELOPMENT IN ACCRUAL ACCOUNTING

New Zealand Experience



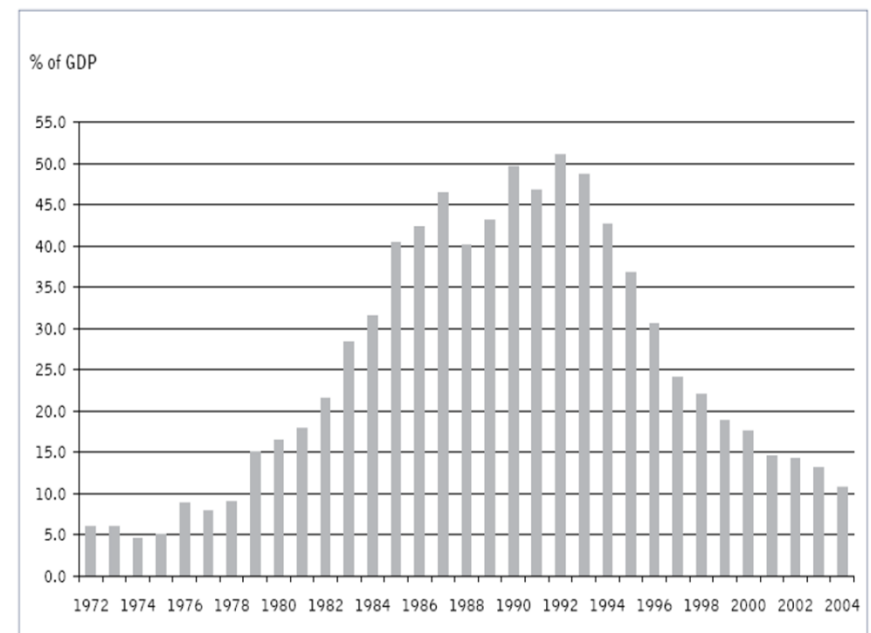
Whilst there is no direct empirical evidence to attribute the improvement in fiscal management to the deployment of accrual accounting, there has been a number of research papers written arguing that accrual accounting together with outcome based budgeting have provided an effective fiscal management tool to drive prudent fiscal management that has then resulted in the improvement in the management of budget and reduction in public debt.



Source: New Zealand Treasury.

OBB Project Team, Ministry of Finance, Malaysia

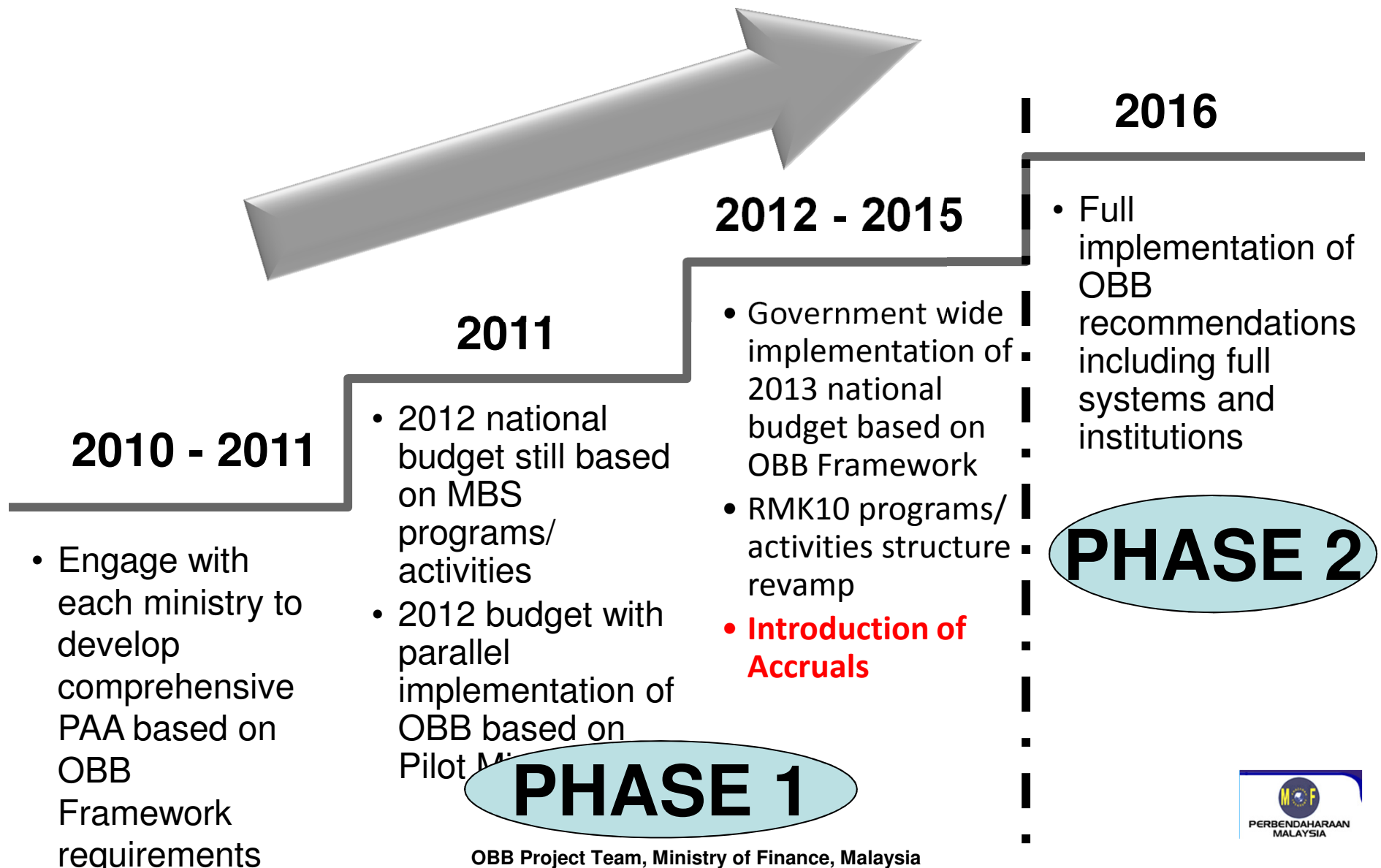
New Zealand Net Public Debt



Source: Pemandu

Implementation Timelines

STRATEGIC TIMELINE



Benefits of Implementing Accruals

Benefits of Implementing Accrual Accounting

How Can Accrual Accounting Benefit the Public Sector in Malaysia?

- Costing data of output enables more effective evaluation of alternatives to achieve the outcomes – **Cost Savings**
- Information on assets facilitate unlocking of values – **Revenue Generation**
- Assets listing provide a database for infrastructure management leading to better maintenance of assets – **Better Service Delivery**

Accountability

- Accounting for consumption of resources
- Improve performance and financial management of each agency

Sustainability

- Facilitate revenue management by each agency
- Promotes intergenerational equity of public policies
- Completeness of accountability of resources

Better Measure of Policies Effect

- More effective measure in complimenting results framework of OBB
- Better accountability of executive government

Organizational Efficiency and Effectiveness

- Compliment results framework of OBB
- Costing of outputs and measured against outcomes

Promote Greater Integrity

- Curbs teeming and lading of expenditure
- Promotes transparency
- Minimizes year-end shopping
- Compatibility with developed economies

More Efficient and Effective Fiscal Management

terima kasih
thank you



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