Accrual Accounting in Malta

Past, Present and Future

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Overview

Past: where are we coming from?
Present: where are we now?
Future: where are we heading?
Past: where are we coming from?

- **1996**
  - DAS, the cash-based Departmental Accounting System, introduced in Central Government.

- **1999**
  - Accrual Accounting Task Force set up to implement accrual accounting in Central Government.

- **1999**
  - 1st circular on Government Accrual Accounting

  **14/99: Government Accrual Accounting: Revised Inventory Control Regulations**
Past: where are we coming from?

2001-2004: Other circulars focused on accrual accounting concepts.

2001: Malta Government Accounting Standards (MGASs) issued.

2015: Accrual accounting information is being submitted to the National Statistics Office (NSO) for National Accounts reporting purposes to Eurostat.
Present: where are we now?

Accrual Accounting/IPSAS Project

• Implementation of **Public Finance Management Reform**
• Three fundamental pillars:
  - **I.T. DAS Replacement**
  - **H.R. Skilled& Sufficient Staff**
  - **Accrual Accounting Standards IPSAS**
Present: where are we now?

• 2014: Tender for the Corporate Financial Management Solution (CFMS) published.
• Tender at adjudication stage.
• CFMS shall be a full-accrual accounting package, having two Core Modules:
  • Financial Management Modules
  • Budgetary Management Modules
Present: where are we now?

Financial Management Modules
- Nominal ledger
- Services & Receivables
- Purchases & Payables
- Stock Control
- Cash Management
- Fixed Assets Management

Budgetary Management Modules
- Budgetary Administration
- Commitment Authorising & Tracking

IPSAS: GETTING OUR ACT TOGETHER
Accountability - Credibility - Transparency
Present: where are we now?

- Finance function in every ministry & department:

  - Accountant
  - Accounts Executives
  - Accounts Clerks
Present: where are we now?


- Learning and Development Strategy with the Centre for Development Research and Training (CDRT).
Present: where are we now?

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>2011</td>
<td>International Public Sector Accounting Standards (IPSAS) - the way forward.</td>
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<tr>
<td>2013</td>
<td>CIPFA: Gap analysis for the transition to accrual reporting.</td>
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<tr>
<td>2013</td>
<td>Two IPSAS Workshops (as preparation for gap analysis).</td>
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<tr>
<td>2013</td>
<td>CIPFA report ‘Transition to Accrual Accounting: Scoping Study’</td>
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Present: where are we now?

CIPFA’s Gap Analysis - 5 issues:

- Accounting
- Systems
- Processes
- People
- Other
Present: where are we now?

Gap analysis: Accounting Issues

- Current system of cash accounting plus accrual templates does not meet IPSAS requirements.
- Full accrual accounting policies need to be developed and implemented.
- Taxation income based on legacy systems is probably inadequate.
- Quality of debtors/creditors current information variable depending on employees’ skills.
- Fixed Assets current data - incomplete.
Present: where are we now?

System Issues  ❖ Replacement of DAS – critical.

Process Issues  ❖ Processes - reviewed and redesigned.

People Issues  ❖ Small full time central project team.
  ❖ Sufficient qualified & appropriately experienced accountants at all levels - critical.

Other Issues  ❖ Control weaknesses.
Project Governance Structure

**IPSAS Project Board**

**Chairman:** Accountant General  
**Members:** FPMD, NSO, IAID, Budget Office, EU Budget Directorate, MITA, NAO (observer)  
**Board Secretary:** Office of PS

**IPSAS Project Team**

**Team Leader:** Director (Government Accounts)  
**Members:** FPMD, NSO, EU Budget Directorate, Treasury, MITA  
**Team Secretary:** Treasury

- **Learning & Development Strategy**  
  CDRT, MIA, CIPFA

- **Communication Strategy**  
  Ministry for Finance

- **I.T. Expertise**  
  MITA
Present: where are we now?

- Presentation of IPSAS Implementation Project Plan.
- Implementation strategy based on a phased approach.
- A phased approach: allows for implementation of the new I.T. solution and for necessary IPSAS skills and expertise to develop.
Phased Approach to IPSAS Implementation

Development of Policies and Circulars

On going

Dry Run – new policies, procedures, systems in MFIN

1st Year Accounts & Audit (dry run) in MFIN

Year 1

Pilot test - policies, procedures, systems in selected ministries/departments

2nd Year Accounts & Audit (pilot) in selected ministries/departments

Year 2

Full implementation - policies, procedures, systems in all ministries/departments

3rd Year Accounts & Audit (full) in all ministries/departments

Year 3
Present: where are we now?

**IPSAS as adopted by the Maltese Government**

- IPSAS Project Team – currently focused on **fixed assets’ related IPSASs.**
- IPSASs being proposed as national standards: **IPSAS as adopted by the Maltese Government.**
- **Original** IPSAS on PP&E: **option** - the Cost Model or Revaluation Model.
- **IPSAS as adopted by the Maltese Government:** Cost Model **only**, except for specific circumstances (e.g. land and buildings).
Present: where are we now?

**IPSAS as adopted by the Maltese Government**

- IPSAS variations to the original standards discussed with CIPFA.
- The Malta Institute of Accountants (MIA) receives a copy of the national standards to provide input to the team.
Present: where are we now?

**IPSAS as adopted by the Maltese Government**

Standards analysed by the IPSAS Project Team:
- IPSAS 17 Property, Plant & Equipment
- IPSAS 21 Impairment of non-Cash Generating Assets
- IPSAS 26 Impairment of Cash Generating Assets
- IPSAS 31 Intangible Assets
- IPSAS 13 Leases
- IPSAS 16 Investment Property
- IPSAS 5 Borrowing Costs
Present: where are we now?

IPSAS as adopted by the Maltese Government

Standards approved by the IPSAS Project Board:
- IPSAS 17 Property, Plant & Equipment
- IPSAS 21 Impairment of non-Cash Generating Assets
- IPSAS 26 Impairment of Cash Generating Assets
- IPSAS 31 Intangible Assets
Present: where are we now?

**IPSAS as adopted by the Maltese Government**

- User-friendly Guidelines issued with each standard.
- An Asset Management Framework proposed by IPSAS Project Team.
Present: where are we now?

**IPSAS as adopted by the Maltese Government**

Discussions with ministries and departments:

- Education Ministry/Department
- Government Property Department
- Armed Forces of Malta
- Police Department
- Customs Department
- Health Ministry/Departments
Present: where are we now?

**EPSAS**

- Participation in European Public Sector Accounting Standards (EPSAS) development.
- Representatives from Treasury on EPSAS Task Forces and Working Group.

Future: where are we heading?

2016 and beyond – the 3 pillars

• CFMS (DAS Replacement) tender award: by the end of the first quarter of 2016.
Future: where are we heading?

2016 and beyond – the 3 pillars

• Proper Finance Function in each ministry and department.
• Government Finance Profession in Central Government.
• Implementation of a training strategy across all levels of Government.
Future: where are we heading?

2016 and beyond – the 3 pillars

• Fixed Assets’ policies & circulars - review and revision.
• IPSAS 23 Revenue from Non - Exchange Transactions - CIPFA project.
• Preparation of Opening Balance Sheet.
• IPSAS 33: First-time Adoption.
• Review of Public Finance Management Legislation.

IPSAS: GETTING OUR ACT TOGETHER
Accountability - Credibility - Transparency
Future: where are we heading?

2016 and beyond

• The success of this reform also depends on you!

• Taking **ownership** of these developments is critical for the reform to be a success.
Future: where are we heading?

2016 and beyond

• There will be challenges and obstacles to overcome, but we are confident that if all of us here today do our part, we will succeed to finally get our act together!
The IPSAS PROJECT TEAM
Michael Zammit Munro – Team Leader (Treasury)
Mariestell Dalli – Member (Treasury)
Claire Lewis – Member (Treasury)
Noel Bezzina – Member (FPMD)
Ruth Degabriele – Member (MITA)
Sarah Cachia – Member (NSO)
Angele Mangion – Member (EU Budget)
Mariella Axiak – Secretary (Treasury)