

FROM PERS TO MPSAS: AN EXPLORATION INTO CHALLENGES TO FEDERAL STATUTORY BODIES IN MALAYSIA

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Abstract

In 2015, departments and agencies of the Federal Government of Malaysia's financial statements will be prepared using the accrual basis, in accordance with the Malaysian Public Sector Accounting Standards (MPSAS) for the first time. The Accountant General's Department (AGM) develops MPSAS, which are drawn up primarily from the International Public Sector Accounting Standards (IPSAS) as a standard and to be applied in the preparation of general purpose financial reports of all public sector entities to replace Private Entities Reporting Standards (PERS). Among the notable differences between PERS and MPSAS are the standards for assets, generally, and treatment of Property, Plant and Equipment (PPE), specifically. Using the example of Federal Statutory Bodies (FSBs) as a case study, this paper will illustrate the differences in asset recognition principles, subsequent expenditure and cost of PPE and revaluation treatment of PPE. Apart from that, the challenges faced by the FSB in coping with the new standards are then discussed and identified. The study will be conducted using a qualitative approach of content analysis of secondary data such as annual reports, standards and various other publications as well as primary data obtained from interviews with selected FSB. This paper presents an analysis of a financial reporting issue using the framework based approach. The findings are anticipated to prepare and assist the FSBs and other industry players in making financial reporting decisions through the transition period from PERS to MPSAS thereby overcoming the challenges of incorporating MPSAS.

Keywords: PERS, MPSAS, PPE, Federal Statutory Bodies, Challenges

DARI PERS KEPADA MPSAS: KAJIAN TERHADAP CABARAN YANG DIHADAPI OLEH BADAN-BADAN BERKANUN PERSEKUTUAN DI MALAYSIA

Abstrak

Pada tahun 2015, penyata kewangan bagi jabatan-jabatan dan agensi-agensi Kerajaan Persekutuan akan mengamalkan asas perakaunan akruan, selaras dengan pengenalan kepada Malaysian Public Sector Accounting Standards (MPSAS). Jabatan Akauntan Negara Malaysia memperkenalkan MPSAS berdasarkan International Public Sector Accounting Standards (IPSAS) sebagai kayu ukur dan untuk digunakan dalam penyediaan penyata kewangan kepada semua badan kerajaan di Malaysia bagi menggantikan Private Entities Reporting Standards (PERS). Antara perbezaan yang ketara antara PERS dan MPSAS adalah piawaian aset secara umumnya, dan pelaporan Hartanah, Loji dan Peralatan (PPE) secara khasnya. Dengan menggunakan Badan Berkanun Persekutuan (FSB) sebagai kajian kes, kajian ini akan memberi gambaran dalam prinsip pengiktirafan aset, perbelanjaan lanjutan, pengekoskan dan penilaian semula PPE. Selain itu, cabaran yang dihadapi oleh FSB dalam mengimplimentasi piawaian perkaunan yang baru dikenalpasti dan dibincangkan di dalam kajian ini. Kajian ini akan dijalankan dengan menggunakan method qualitative dengan menganalisa data sekunder seperti laporan tahunan, piawaian perakaunan dan pelbagai bahan rujukan bercetak lain, selain perolehan data primer melalui temubual dengan FSB terpilih. Kajian ini menerangkan isu tentang analisis laporan kewangan dengan menggunakan teknik rangka kerja. Penemuan dari kajian ini dijangka akan membantu FSB dalam penyediaan laporan kewangan melalui tempoh peralihan dari PERS ke MPSAS dan seterusnya dapat membantu mengatasi cabaran dalam mengimplementasi MPSAS.

Kata kunci: PERS, MPSAS, PPE, Badan Berkanun Persekutuan, Cabaran

INTRODUCTION

The Ministry of Finance issued a circular in March 2013 to announce the implementation of accruals accounting for the all public sector entities from 2015, and the issuance of MPSAS. This is in accordance with the Public Sector Transformation Policy outlined in the New Economic Model in line with the aspirations and strategies outlined in the 10th Malaysia Plan: 2011-2015 Chapter on 'Transforming Government to Transform Malaysia'. Through this initiative, the Government has targeted to achieve a Federal Government deficit budget of around 3% by 2015 and near neutral budget by 2020. This shift will facilitate the public sector entities to report its financial performance, financial position and

cash flow more accurately towards enhancing accountability and transparency in its financial management.

Statutory Bodies (Accounts and Annual Reports Act) 1980 (Act 240) defined “statutory body” as any body corporate, irrespective of the name by which it is known, that is incorporated pursuant to the provisions of federal law and is a public authority or an agency of the Government of Malaysia but does not include a local authority and a body corporate that is incorporated under the Companies Act 1965. FSBs are semi-governmental agencies which established by the federal government under a specific ministries to meet the government objectives. They are governed by a board and have an equality amongst governmental control and managerial flexibility. Similar to a company, a FSB is a separate entity that has the power to administrate, sue and being sued on its own name, sign contracts, own, buy and hold assets.

As at the end of 2015, a total of 128 FSBs were established to perform such functions as stated in their incorporation. Concerning on reporting, by 2016, FSBs are required to prepare Financial Statements in compliance with Section 16(1) of the Financial Procedure Act 1957 (Act 61) and comply with the approved accounting standards, which is MPSAS.

MPSAS is the accounting standard that has to be observed by the public sector accounting entities in Malaysia. It is expected to be applied to FSBs in the preparation of financial statements and was encouraged by AGM to follow, which will take effect from January 2017. However, earlier adoption is recommended. The AGD develops and publishes MPSAS which apply to the accrual basis of accounting and sets out requirements dealing with transactions and other relevant events in the general purpose financial reports.

LITERATURE REVIEW

There are several studies reviewed the literatures on Public Sector Accounting (PSA). However, most of the literature focused on pure government departments rather than government agencies set up as private entities, therefore little is known about how PSA deals with the needs and challenges of the FSBs. Studies done by Broadbent & Guthrie (1992) covers the context of less developed countries with very minimal discussion. Malaysia is one of the country has limited review in most accounting journals.

A move to MPSAS are due to the expansion of Malaysian government. This may help to put Malaysia at the same level with other developed countries. Nevertheless, the move is not without its challenges (Atan & Mohamed Yahya, 2015). There are few studies on the challenges of adopting new standards which is MPSAS. Thus, this paper focuses on the challenges face by FSBs in adopting MPSAS. Studies which address on the change from cash basis to the accrual accounting mainly focus on organisational and individual factors in ensuring the successful implementation of the accounting system.

Atan & Mohamed Yahya (2015) studied the behaviour and mindset of PSA personnel in various ministries in Malaysia and found that although most were felt positive towards the change, there were some disagreements on responsibilities related to the change. However, the coverage has minimal discussion in relation to FSBs. Studies which address the gaps, opportunities and accountability information was discussed by Bakar & Saleh, (2011) who stated that a more inclusive study on statutory bodies would be useful in understanding accounting and accountability aspects of FSBs requirements in ensuring the efficiency and effectiveness of annual reports of Malaysian FSBs.

In the areas of PSA, many of the studies have limited its review on transparency, accountability and disclosure in public sector literature. It is very important to have an insight of the challenges faced by PSA personnel in general and FSB personnel in particular, therefore, for the above reasons, this study is hope to provide more specific review on Malaysia to get a better highlights of PSA research. It is also hoped that the study provides valuable input for FSBs in decision making which requires objective, knowledge.

METHODOLOGY

The preliminary study is a qualitative design using interview and comparative analysis of the financial standards. A personal interview was conducted with a representative of the accounting department of an FSB in the logistics industry. Among the major strengths of the interview is the ability to establish rapport with the respondents, clarify questions, clear doubts and add questions, read non-verbal cues, and obtain rich data (Sekaran, 2000). The interview consisted of open ended questions designed to elicit information on the challenges and actions implemented by the FSB with respect to managing the transition from PERS to MPSAS.

ADOPTION OF MPSAS

In 2006, the Malaysian Accounting Standard Board (MASB) announced that FSBs can adopt a simpler accounting standard known as PERS. PERS provide an option for FSBs to present their annual financial statements without compliance with complex international accounting standards by eliminating several disclosure requirements which is less useful for decision making.

As Malaysia is striving to achieve developed nation status by 2020, accounting could play a vital role in ensuring the development (Goddard, 2010). On 14 February 2014, MASB issued a new financial reporting framework for private entities. The MPERS will replace the current PERS and must be applied for financial statements beginning on or after 1 January 2016. However, an opinion from AGM mentioned that MPERS is less suitable to adopt by FSBs. Thus, AGM recommended to adopt MPSAS for the general purpose financial report for FSBs.

The main concern for those adopting the new standards for the first time is the transition from the current accounting practices and treatments to new requirements. Having decided to adopt accrual accounting in accordance with MPSAS, the transitional provisions would govern the length of time available to make the transition. The AGD strongly encourages the adoption of MPSAS by all FSBs towards enhancing the quality and transparency of financial reporting.

The FSBs was already using full accrual-based accounting under MPERS to allow the FSBs to report its financial performance, financial position and cash flow more accurately towards enhancing accountability and transparency in its financial management. Although it would appear that it would be relatively easy for FSBs to make transition to MPSAS compared to other government bodies which has been using cash accounting, this assumption is not true. MPSAS is a hybrid accounting system that recognises the non-profit nature of government agencies, thus rules regarding revenue recognition and profit or loss is remarkably different from MPERS. MPSAS still uses the Accumulated Fund and surplus or deficit of the previous Government Accounting System (GAS).

In relation to reporting, it seems that FSBs need to deliver an extensive obligation to the stakeholders. This need is to ensure FSBs are able to maintain a balance between discharging public accountability and acting independently. For example, Guthrie (1993) commented that the traditional public sector accountability is likely to be compromised when the corporate form is used in public sector agencies, as greater attention is given to its commercial rather than its social objectives.

PERS VERSUS MPSAS

According to International Accounting Standard (IAS) 16, PPE outlines the accounting treatment for most types of PPE. PPE is initially measured at its cost, subsequently measured both using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life. However, MASB 15 outlined the accounting treatment for PPE to be recognised as an asset when it satisfies the definition and recognition criteria for an asset in the MASB's A Proposed Framework for the Preparation and Presentation of Financial Statements, which supersedes the MASB Approved Accounting Standards IAS 16. As per MPSAS 17, PPE includes specialist military equipment, heritage assets and infrastructure assets.

Objectives of the Malaysian Financial Reporting Standard (MFRS) and MPERS is to provide a basis for the use of judgement in resolving accounting issues. General purpose financial statements focused on information needs of a wide range of users, for instance, shareholders, creditors, employees and the public at large. The objective of financial statements is to provide information about the financial position, performance and cash flows of an entity that is useful to those users in making economic decisions. Where as the objective of MPSAS is to provide transparent reporting to the public.

Similar to MFRS recognition principles, both MASB 15 and MPSAS applies recognition at two levels one on initial recognition and the other on subsequent expenditure to account for PPE. Both standards used the cost model or fair value of asset exchanged at initial recognition. However, MPSAS 17 Paragraph 38 mentioned that when an exchange has no commercial substance, then the cost is the carrying amount of the asset given up. MPSAS also introduced the scenario of the asset being acquired through a non-exchange transaction, where its cost shall be measured at its fair value as at the date of acquisition.

The recognition of PPE, outlines by MASB 15, should be recognised as an asset when it is probable that future economic benefits associated with the PPE will flow to the entity, and the *cost of the asset to the enterprise* can be measured reliably. In MPSAS 17, the recognition of PPE should be recognised if and only if it is probable that future economic benefits or service potential associated with the item flow to the entity and *the cost or fair value of the item* can be measured reliably.

Both standards recognises subsequent expenditure (Para 27 MASB 15) and ((Para 23-25 MPSAS 17). In MASB 15, a cost is only included in the carrying amount if it *improves the condition of the asset beyond its originally assessed standard of performance* However, MPSAS 17 allows recognition of the *replacement cost* and derecognition of prior replacement costs. Thus, there is no need to prove improvement in conditions under MPSAS.

In identifying what represent a separate item for PPE, opinion is needed to be obtained pertaining the recognition criteria to an entity's specific circumstances. MPSAS does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment (Para 18) For example, most spare parts and servicing equipment, outlined in MASB 15, are usually carried as inventory and recognized as an expense as consumed. MPSAS 17 clarifies further to recognise them in surplus and deficit as consumed. However, under MPSAS 17, major spare parts and standby equipment may qualify as PPE when the enterprise expects to use them during more than one period. For example marine craft and its engines is expected to have useful life of seven to fifteen years. Thus, this class of asset may be qualified as PPE. Thus, the accounting treatment of spare parts may change due to the transition.

For example, a marine craft that was purchased in 1994 at cost RM 1.3 million. It is 22 years old and the estimated useful years is 30 years. At the end of 2015, the craft need to change its fibreglass costing RM330,000. Carrying amount for the marine craft now is RM 47,000 and due to the upgrade, the remaining useful life is now extended to 10 years. Previously, there was no separate value for old fibreglass, therefore, although MPSAS requires derecognition of replaced parts, it cannot be done and the FSB can only assume that the fibreglass has been fully depreciated together with the rest of the marine craft. The question now is, how should the RM330,000 be treated? Should it be treated as a separate PPE or

added to the marine craft? This is especially when the parts has been purchased and kept as inventory previously.

MPERS accounting treatment for the above is straightforward as it requires the entity to revalue the asset and the subsequent expenditure can be capitalised provided that the carrying amount does not exceed the recoverable amount of the asset. MPSAS is silent as to the limit to additions to the carrying amount. The fair value measurement in MPSAS is far less comprehensive compared to MFRS 13. Assuming in the case above, there's no active market and no recent transactions, it is unclear from MPSAS what other measurement models can be adopted. To completely write off RM330,000 for an item that could bring about service potential for another ten years would not serve the spirit of the accrual system, but the MPSAS does not provide enough guidance to determine the fair value measurement of the upgraded marine craft as a whole. What it does have is a difficult to interpret Paragraph 40 which says that in absence of an active market, the fair value of an asset can be measured reliably if

- (a) The variability in the range of reasonable fair value estimates is not significant for that asset; or
- (b) The probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value

The above paragraph suggests that of the different measurement bases that the FSB can use, if they can estimate 'value in use' as practiced under MFRS 13, then it may meet the needs of the FSB. Certainly the 'service potential' concept appear to be consistent with the 'value in use' concept. Furthermore Paragraph 48 provides several alternatives such as reproduction cost, depreciated replacement cost, or the restoration cost or service units approaches (see MPSAS 21).

The major difference between MPERS and MPSAS is the determination of fair value of asset for the revaluation model under MPSAS. Whichever model is used, the accounting policy must be adopted for the entire class of assets as per Paragraph 42. Moreover, MPSAS 17 outlines the measurement after recognition for PPE, either to choose to adopt cost model or revaluation model as its accounting policy to an entire class of PPE. By using cost model, after recognition as an asset, an item of PPE shall be carried at its cost, less any accumulated depreciation and any accumulated impairment losses. On the other hand, by using revaluation model, after recognition as an asset, an item of PPE whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. Revaluation shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

The adoption of the cost model is unrealistic. Buildings, plants and structures may be part of the PPE class, thus, their fair value must be reported to meet the public

accountability and transparency objective. The cost model lends itself to undervaluation of assets which would lend itself to misallocation and misappropriation of assets.

MPSAS drew the same treatment of measurement after recognition. What differed were the terms used. PERS outlines two types of treatment under the measurement subsequent to initial recognition; benchmark treatment and allowed alternative treatment. Benchmark treatment was similar as the cost model, whereas allowed alternative treatment were similar to the revaluation model. MPSAS emphasized further on the increases and decreases of revaluation relating to individual assets within a class of PPE to be offset against one another within that class but must not offset in respect of asset in different classes. In addition, to determine whether an item of PPE is impaired, an entity applies MPSAS 21. That Standards explains how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, and when it recognizes, or reserves the recognition of, an impairment lost. In MPERS, changes in revaluation including impairment of PPE is in Other Comprehensive Income (OCI). Whereas, in MPSAS 17 recognises 'compensation of impairment' where an entity may receive compensation from third party for items of PPE that were impaired, lost, or given up shall be included in surplus or deficit when the compensation becomes receivables.

Besides, MPSAS 17 highlight clearly on derecognition of assets clearly as compared to PERS. The Standards explains the gain or loss arising from the derecognition of an item of PPE shall be included in surplus or deficit when the item is derecognized (unless MPSAS 13 requires otherwise on a sale and leaseback). Gains from derecognition shall not be classified as revenue.

In other words, although the accounting appear to be similar in terms of recognition, the measurement of the item seems to differ. Choosing measurement basis needs to be done carefully as it may apply to the entire PPE class. As fair value measurement continues to be controversial in terms of which would best serve the information needs of the stakeholders, there is a need for MPSAS to provide better guidance on fair value measurement for FSBs similar to MFRS 13.

CHALLENGES FACING FSB

FSBs are known as organisations that adopt a corporate style-management, where financial statements serves as an important tools for decision making (Bakar & Salleh, Extent Disclosure in the Annual Reports of Malaysian Federal Statutory Bodies, 2016). When the use of PERS is stopped, and MPSAS is yet to come into effect, FSBs are allowed to use the existing policies which are already in place. Simultaneously, the FSBs are encourage to apply the transitional exemption under MPSAS before full commencement of MPSAS. The challenges face by FSB in applying MPSAS under the transitional period is the failure in obtaining the correct opening balance for all accounts especially assets. This is probably will leads to understatement of assets.

In making sure that the preparation of financial statements are compliant to MPSAS, FSBs need to restate the opening balances for all assets, liabilities, revenue, expenses and equity. The disputes face by FSBs are to make certain on the existence and adequacy of records of transactions. Thus, FSBs might face issues in data collection. Among the steps need to be done again for the restatements are to identify the assets and existence of assets. Next, FSBs need to examine the legal and beneficial owner of the asset.

In addition, in gathering the information to restate the opening balances, FSBs might face issues in data availability and completeness. This information is required to handling the measurement and valuation of assets. On the other hand, in adopting MPSAS, there may be conflicts in implementing the policies set, such as Treasurer Circular or General Manager's Circular or standards, such as MPSAS. In such consequences, FSBs decided that policy that precedence. Thus, policy should come first with the guidance of the standard. This is because the FSBs are given greater autonomy compared to other governmental departments (Bakar & Salleh, Extent Disclosure in the Annual Reports of Malaysian Federal Statutory Bodies, 2016).

What is more, FSBs might face issue in consolidating the financial statements. Matters arise due to different accounting standards adopt by subsidiary company practices. After considering the opinion by AGM, the best practice would be for the subsidiaries to follow the accounting standards used by the holding company, as only when consolidation can take place effectively. This is because annual reports are regarded as the main medium of disseminating information to stakeholders (Wei, Davey, & Coy, 2008)

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