MALAYSIAN INSTITUTE OF ACCOUNTANTS

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Ms Stephenie Fox
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International Public Sector Accounting Standards Board
International Federation of Accountants
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CANADA

Dear Stephenie

EXPOSURE DRAFT 53 *FIRST-TIME ADOPTION OF ACCRUAL BASIS INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSASs)*

The Accountant General Office of Malaysia ("AG Office") and the Malaysian Institute of Accountants ("MIA") are pleased to provide comments on the International Public Sector Accounting Standards Board ("IPSASB") Exposure Draft ("ED") 53 *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards ("IPSASs")*.

We generally support the proposals in the ED. As the government of Malaysia is moving towards accrual basis accounting in 2015, we find that the exemptions proposed in the ED are useful and would ease the transition from cash to accrual basis accounting. However, we have concerns over proposed exemptions on IPSAS 6, 7 and 8 as well as the relief period of three years for the recognition and/or measurement of certain assets and/or liabilities. These concerns are further elaborated in our responses to the Specific Matters for Comment set out below.

Specific Matter for Comment 1

The objective of this Exposure Draft is to provide a comprehensive set of principles that provides relief to entities that adopt accrual basis IPSASs for the first time.

a) Do you agree with the proposed transitional exemptions included in the Exposure Draft; and
b) Do you believe that the IPSASB achieved its goal in providing appropriate relief to a first-time adopter in transitioning to accrual basis IPSASs?

Please provide a reason for your response.

a) We agree with the proposed transitional exemptions included in the ED. We would like to propose additional transitional exemptions that affect fair presentation and compliance with accrual basis IPSASs which are as follows:
   i) Paragraph 32 states that a first-time adopter is not required to recognise certain assets and/or liabilities during the transition period. We recommend that similar exemption is made available for inventory. For the Malaysian government, its inventories mainly comprise of inventories held for defence purpose and medical supplies. Due to its highly

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specialized nature (of the defence inventories) and the high volume of these items, it would require longer time and additional effort to recognize these assets in the financial statements. Such longer time is required to put in place proper control and procedures in the inventory system.

ii) The following paragraphs in ED53 provide transitional exemptions in relation to IPSAS 6, 7 and 8:
   - Paragraph 44 states that a first-time adopter is not required to eliminate all balances, transactions, revenue and expenses between entities within the economic entity during the transition period.
   - Paragraph 47 states that a first-time adopter applying the equity method of IPSAS 7, the investor is not required to eliminate its share in the associate's surplus and deficit resulting from upstream and downstream transactions between the investor and the associate during the transition period.
   - Paragraph 50 states that a first-time adopter applying the proportionate consolidation treatment of IPSAS 8, a venture is not required to eliminate all balances and transactions between itself and entities that are jointly controlled for reporting periods during the transition period.

   We agree with the above transitional exemptions in relation to the preparation of consolidated financial statements. However, we strongly believe that a transitional exemption on preparing consolidated financial statements is critical and should be made available to the constituents. This is based on the experience of a number of jurisdictions that have produced consolidated financial statements. For instance, the United Kingdom ("UK") took almost ten years to produce its first consolidated financial statements after it published its first central government financial statements. The UK published its first audited central government accounts prepared on accrual basis for the financial year ended 31 March 2000. It only published its first Whole of Government Accounts ("WGA"), a consolidated set of financial statements for the UK public sector for the 2009-2010 financial year. WGA consolidates around 1,500 bodies including central government departments, local authorities, devolved administrations, the health service and public corporations.

   Many developing and under-developed countries will be moving from cash to accrual accounting in the next five years. The PwC Global Survey on Accounting and Financial Reporting by Central Governments highlighted that the move towards accrual accounting will take place majorly in Africa, Latin America and the Caribbean, and Asia. The survey also highlighted that the lack of trained staff and IT system requirements are the main challenges of accrual accounting conversion. These challenges as well as complexity of consolidation process would require longer time for the developing and under-developed countries to produce consolidated financial statements.

   We also wish to recommend the IPSASB to perform a jurisdiction review to determine the appropriate transitional relief period for not preparing consolidated financial statements.

b) We agree that the IPSASB achieved its goal in providing appropriate relief to a first-time adopter in transitioning to accrual basis IPSASs to certain extent. We believe that the relief period of three years is too short for a first-time adopter which we have further elaborated in our response to Specific Matter for Comment 3.

Specific Matter for Comment 2

The IPSASB agreed that there should be a differentiation between those transitional exemptions that do not affect the fair presentation of a first-time adopter`s financial statements and its ability to assert compliance with accrual basis IPSASs, and those that do.

a) Do you agree with the proposed differentiation and how it is addressed in the Exposure Draft, and

b) Do you agree that the individual categorization is appropriate?

If not, please provide a reason for your response and provide an alternative approach.

We agree with the proposed differentiation and how it is addressed. The individual categorisation is also appropriate.

Specific Matter for Comment 3

This Exposure Draft proposes a relief period of three years for the recognition and/or measurement of specific assets and/or liabilities in allowing a first-time adopter to transition to accrual basis IPSASs. Do you agree that a relief period of three years is appropriate? If not, please indicate the time frame that, in your view, would be appropriate, supported with the reason for the longer or shorter transitional relief period.

We believe a relief period of five years is more appropriate, as provided by the transitional provision in IPSAS 17 *Property, Plant and Equipment*. BC37 of the ED states that the IPSASB allows a three year grace period to encourage entities to prepare for the adoption of IPSAS in advance of preparation of their transitional IPSAS financial statements, or their first IPSAS financial statements. Due to the challenges faced by developing and under-developed countries highlighted earlier, as well as incomplete information of assets and liabilities and the voluminous data involved, the relief period of five years is very essential. Further, for jurisdictions with high public debts over its gross domestic product (GDP) ratio, moving to accrual accounting is very critical and would require early adoption of the accounting standards before they can prepare their first accrual-based financial statements.

Other Comments

Paragraph 126(c) states the following:

"Where a first-time adopter takes advantage of the transitional exemptions in this Standard, the following disclosures shall be made in the financial statements:

(c) Where it has taken advantage of the transitional exemption not to eliminate some balances, transactions, revenue and expenses, the nature of the balances, transactions, revenue and expenses that have been eliminated during the reporting period;..."

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We believe such disclosure should be required on the balances, transactions, revenue and expenses that are not eliminated rather than those that have been eliminated. This will enable users to understand the nature of those balances, transactions, revenue and expenses that have not been eliminated.

We hope our comment would contribute to the IPSASB deliberation in finalising the ED. If you have any queries or require clarification of this submission, please contact Rasmimi Ramli at +603 2279 9200 or by email at rasmimi@mia.org.my.

Yours sincerely,

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