



# Leading the implementation of IPSAS in Saudi Arabia

Interview with Mr. Abdullah Al-Mehthil, President of the Accrual Accounting Center at the Ministry of Finance & Assistant Undersecretary, Deputyship of Finance & Accounts, Ministry of Finance, IPSAS Board Member, Saudi Arabia.





In line with the global trend, the Kingdom of Saudi Arabia (KSA) has taken a major step forward in the development of its public sector financial management through the adoption of accrual accounting standards commonly known as International Public Sector Accounting Standards (IPSAS). Based on Royal Decree Number 13059, these new standards issued in Saudi Arabia on 16 Rabi al-Awwal 1438AH will require all

governmental institutions to convert their financial accounting basis from cash to accrual. This IPSAS implementation and journey, being led by the Accrual Accounting Center at the Ministry of Finance, will enable the government to have a vibrant view of its financial position and will enhance decision-making in order to support the wider ecosystem and the Kingdom in its ambition towards Vision 2030.

Basel El Malki, Partner, Audit and Assurance, Deloitte Middle East, had the opportunity to meet with Mr. Abdullah Al-Mehthil, President of the Accrual Accounting Center at the Ministry of Finance, to discuss how they have navigated the journey in the Kingdom and the progress achieved so far.



**Mr. Abdullah Al-Mehthil,**

President of the Accrual Accounting Center at the Ministry of Finance & Assistant Undersecretary, Deputyship of Finance & Accounts, Ministry of Finance, IPSAS Board Member, Saudi Arabia



**Basel El Malki,**

Partner, Assurance, Deloitte Middle East

**Q. In light of progress made thus far in the transition towards IPSAS adoption, how important is it for the governmental entities and what are the opportunities it creates for them?**

**A.** This transition is of great importance because it enables the governmental entities to develop and achieve a set of important strategic objectives at the state level including:

- Enhancing the principles of transparency and accountability through sharing information with the community and increasing focus to enhance control.
- Creating an integrated financial system, unifying IPSAS, and preparing consolidated financial and statistical reports at the state level, based on a unified account structure and financial and accounting policies.
- Supporting decision-making and providing more accurate and comprehensive information to enhance planning and decision-making processes with regard to risks and opportunities, and to access accurate financial information about government service costs along with their future obligations.
- Improving the Kingdom's capabilities in all social, economic, and financial fields in the public sector. Financial reports also help in conducting international benchmarks.
- Listing all assets and liabilities of governmental entities, and thus highlighting entities' financial position independently and the state's financial position in a consolidated manner.

As much as it is challenging, the transition towards the accrual-based IPSAS adoption meanwhile creates significant opportunities including:

- Enabling the building of a unified financial center for the state.
- Supporting and advancing financial control.
- Improving the governmental accounting system.
- Achieving spending efficiency and planning.

- Contributing to the Kingdom's credit rating reinforcement.
- Improving accounting audit standards.
- Applying accrual-based accounting across the government.
- Enhancing the readiness of governmental entities to implement the Government Finance Statistics Guide 2014.

**Q. What challenges were encountered during the IPSAS adoption and how were they addressed?**

**A.** Challenges can be divided into three categories:

**Category 1: Operation and Processes**

Challenges under this category include:

1. Implementation of a number of initiatives as part of the accrual basis accounting transition project, for example, initiatives of opening balances, recordkeeping, assets listing, inventory, and evaluation within the specified timeframe.

Challenge Management: Prior to the launch of initiatives, the governmental entities communicated with the Accrual Accounting Center to obtain the action plans and the implementation periods to work accordingly, regularly track initiative progress, and escalate issues and difficulties to address them in real time.

2. Information from affiliates was inaccurate to build opening balances.

Challenge Management: The governmental entities sought other sources to obtain information to validate data.

3. Lack of records of outstanding claims or overdue expenditures.

Challenge Management: The governmental entities created a Supplier Claim Record by following reliable alternative procedures regardless of disbursement.

**Category 2: IT Systems**

Challenges under this category include:

1. Inability to carry out accounting activities using the current IT systems.

Challenge Management: The governmental entities worked on the IT enabler (transformation platform) as a temporary technical solution for accrual accounting registration in parallel with the current system, while working to configure the current system with the functional requirements for accrual-based accounting work.

### Category 3: Human Resources

Challenges under this category include:

1. Lack of specialized and qualified human resources to implement the transition to the accrual-based accounting project.

Challenge Management: The governmental entities attracted qualified talents and conducted training courses for their personnel based on the comprehensive training plan at the Accrual Accounting Center.

#### **Q. What improvements have you observed in your financial reports as a result of IPSAS adoption?**

**A.** Reading the financial statements of governmental entities prepared according to the accrual basis of accounting, and by following IPSAS, the following positive points were noted:

1. Consistency in presentation, recognition, measurement, and disclosure between governmental entities as a result of applying unified accounting standards and policies, which are expected to help consolidate and compile financial statements at the level of governmental entities and the country as a whole.
2. Better quality of disclosure in the financial statements of governmental entities, which included elements of materiality such as disclosure of guarantees, commitments, pledges, and related parties. This enhances the financial statements reader's understanding of the operations and obligations of the governmental entity and its relationship with other entities.
3. Comprehensiveness and accuracy of items presented in the financial statements, for example, proving and presenting assets and liabilities.

in the financial statements of public sector entities that were not previously established on a cash basis.

4. Transparency in the presentation of the accounting processes of governmental entities provided more accurate and comprehensive information that helps in enhancing planning and decision-making processes with regard to risks and opportunities. ➔

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**Q. Following completion of the current stage of IPSAS adoption, what will be the next step?**

**A.** Our next step is to transition to the sustainability of the financial reports of governmental entities. Transition in itself does not end with the completion of the project, but rather by following the methods of medium and long-term financial planning to sustain the public finance situation and achieve a balanced budget. Since its launch, the center has contributed to establishing capabilities and tools effective in influencing and positively interacting with the changes and transformations at financial and accounting levels, in order to keep pace with the current requirements of the transition stage and beyond. The center has also contributed to strengthening financial control and developing public finances. This will lead to strengthening and enhancing the Kingdom's financial position and raising the quality of financial reports.

**Q. How do you envision the impact of developing financial reporting in the Kingdom of Saudi Arabia after completing the transition process in the near future?**

**A.** In fact, the development of financial reporting after the completion of the transition process will have **three-dimensional effects**: starting with the government employee, and then the governmental entity, and finally having the greatest impact on the Kingdom of Saudi Arabia.

- Full knowledge of the methods of asset inventory, recording, and categorization in accounting.
- Awareness and full realization of the impact of the work of governmental entities on the performance and financial position of the entity, and thus the public sector as a whole at the level of the Kingdom.
- Full knowledge of IPSAS, which are similar to those used in the private sector and supports them to work in both sectors. As a result, financial management practices in terms of budgeting and accounts have become a part of employees' daily work and decisions through trainings and workshops to implement accrual-based accounting standards derived from international accounting standards.

The development of financial reporting after the completion of the transition process will have three-dimensional effects: starting with the government employee, and then the governmental entity, and finally having the greatest impact on the Kingdom of Saudi Arabia

**The first dimension - Impact on the government employee:**

The impact of developing financial reporting after the completion of the transition process will be reflected as follows:

- Improving employee efficiency and skills to apply IPSAS.
- Learning about the procedures to prepare opening balances.

### The second dimension - Impact on the governmental entity:

The impact of developing financial reporting after the completion of the transition process will be reflected as follows:

- Enhancing the ability to provide more accurate and integrated accounting records in accordance with the highest standards of efficiency.
- Providing a feasibility of the financial statements for a number of years, allowing the comparison and analysis process to be conducted over the years.
- Accurate knowledge of the inventory with the possibility of making a better and more efficient comparison between various options for the use of resources.
- Improving modern management practices when making financial decisions.
- Providing accurate measurement indicators that support the processes of estimating needs, purchasing, warehousing, disseminating services, and controlling oversight.
- Providing more accurate and comprehensive information to enhance planning processes at the level of the governmental entity.
- Improving asset management and accountability for capital expenditures.

### The third dimension - Impact at the KSA level:

Many positive impacts of developing financial reporting after the completion of the transformation process will be reflected as follows:

- A better evaluation of the government's performance in terms of cost, effectiveness, and achievement of the services it provides.
- The state's ability to develop strategic plans based on accurate and complete government financial information.
- Giving a clearer picture of the government's success in managing

its resources and rationalizing its expenditures.

- Defining and comparing the total cost of services provided by the government with the cost of services in the private and volunteering sectors.
- Providing a clearer picture on inventorying and evaluation of fixed assets, revenues, obligations, and future expenses of the Kingdom of Saudi Arabia; this will be reflected on the budget.
- Evaluating the performance of government ministries and agencies in terms of their financial position and cash flows.
- Enabling international organizations to measure the Kingdom's credit rating more accurately and clearly based on data prepared in accordance with international standards.
- The possibility of comparing financial statements with members of international organizations (G20 countries).
- Clearer vision, control, and accountability in terms of managing governmental entities.
- Availability of accurate information to the decision-maker if he/she wishes to privatize a specific sector.

The adoption of IPSAS will not only enhance decision-making abilities, but will also create a comprehensive overview of all financial management matters. This essential step taken by the Ministry of Finance in the KSA reflects yet another relevant global trend that will prove to be promising for all governmental entities involved.

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