

## **ENHANCING ACCRUAL ACCOUNTING ADOPTION IN THE MALAYSIAN PUBLIC SECTOR: CHALLENGES AND THE KEY SUCCESS FACTORS**

AGNES PAULUS JIDWIN<sup>1</sup>, JULIANA AWANG<sup>2</sup>, ROSLIDA RAMLEE<sup>3</sup>, EMELIA GIRAU<sup>4</sup>,  
DGKU HABIBAH AG KEE<sup>5</sup> & MUHAMAD IZWAN IKHSAN<sup>6</sup>

<sup>1, 2, 3, 4, 5</sup>Fakulti Perakaunan, Universiti Teknologi MARA (UiTM), Cawangan Sabah

<sup>6</sup>Fakulti Undang-Undang, Universiti Teknologi MARA (UiTM), Cawangan Sabah  
[agnes@uitm.edu.my](mailto:agnes@uitm.edu.my)

### **ABSTRACT**

The transition from cash-based accounting to accrual accounting in the public sector has become a subject of growing interest globally, driven by the pursuit of improved financial transparency, accountability, and decision-making. This paper critically reviews existing literature pertaining to the challenges and success factors associated with the implementation of accrual accounting in the Malaysian public sector context. The literature review unveils a multifaceted array of challenges that hinder the seamless adoption of accrual accounting. These challenges range from the complexities of transitioning institutional structures and processes to the intricacies of aligning human resources with the demands of accrual-based financial reporting. By shedding light on the intricate dynamics of accrual accounting implementation, this paper contributes to the ongoing dialogue on strengthening financial governance, transparency, and accountability within the Malaysian public sector.

*Keywords: Accrual accounting, implementation challenges, success factors, Malaysian public sector, resistance to change*

### **Introduction**

Accounting plays an essential role in monitoring the movement of financial resources and the organisation's financial position (Biot-Paquerot et al., 2006) by providing accounting information that is useful for planning, decision-making, monitoring, and informing users through its financial statements. Generally, there are two types of accounting methods: cash basis and accrual basis (Zarandi et al., 2013). Cash-based accounting records revenue when cash is received and expenses when cash is paid out. Accrual basis accounting records revenue when it is earned and expenses when they are incurred, regardless of when cash is received or paid out. Both methods have been applied in both public and private sector accounting. Initially, cash basis accounting was used by both public and private sectors, but

when the GAAP was introduced, accrual basis began to be practised by the private sector (Wynne, 2003).

Accrual accounting provides a more accurate picture of an organisation's financial health by recognising revenue and expenses when they are incurred, regardless of when cash is received or paid out. This can be especially important for organisations with long-term assets or liabilities, as it allows them to track the total cost of these assets and liabilities over time. Accrual accounting has been widely used in the private sector since accrual leads to transparency and accountability for any transaction. This can help to prevent fraud and abuse, and it can also help to ensure that government spending is aligned with public priorities. With the demand for more accountability and transparency in the public sector, governments have been motivated to adopt accrual accounting for financial reporting and budgeting concerns (Champoux, 2006). As a result, more and more governments are adopting accrual accounting, and this trend is likely to continue in the future.

Due to its potential impact on financial transparency, accountability, and economic stability, the introduction of accrual accounting has attracted substantial attention in developed and developing countries. In developed countries such as the United States and the United Kingdom, the adoption of accrual accounting has been driven by the need for more accurate financial reporting. A recent study by Smith et al. (2022) has highlighted its effectiveness in enhancing transparency, aiding decision-making, and ensuring fiscal sustainability. In emerging countries, implementing accrual accounting has encountered unique challenges, including capacity constraints and cultural differences. Smith et al. (2022) highlighted the pivotal role played by a robust regulatory framework and unwavering government commitment as the main drivers for success. Meanwhile, Calabrese & Gupta's (2023) investigation highlights the importance of capacity building and training programs. Adequate training for financial personnel and officials is essential, particularly in emerging countries, to ensure that they have the skills and knowledge to implement accrual accounting effectively. In the digital age, technological readiness is pivotal. Ouda and Jorge (2021) highlight the need for up-to-date information systems and technologies to support accrual accounting processes, data accuracy, and reporting. In addition, international organisations like the IMF and the World Bank provide technical assistance and support in promoting accrual accounting reforms in emerging countries.

### **Accrual Accounting in Malaysian Public Sector**

The Malaysian government has adopted and developed various accounting systems in the past years by focusing on strengthening efficient planning, utilisation and control of public financial resources and assets. The adoption of these accounting systems has helped the Malaysian government to improve its financial management practices. The systems have provided the government with a more accurate and timely view of its financial position, which has allowed it to make better decisions about how to allocate its resources. The systems have also helped to improve the government's internal controls, which has reduced the risk of fraud and corruption. Pollitt and Bouckaert (2004) found a pattern of budgetary reform which begins with a traditional cash-based accounting system followed by a shift to the double-entry bookkeeping with elements of cost analysis, modified cash or modified accrual basis, and later the application and development of full accrual accounts which emphasised on information related to performance.

Accrual accounting has been on the financial management agenda in Malaysia since 2010, when the Malaysian government introduced the New Economic Model (NEM) 2011-2020 (National Economic Advisory Council, 2010). The NEM identified accrual accounting as one of the key reforms needed to improve the transparency and accountability of the Malaysian public sector. The main objective of adopting accrual accounting is to facilitate asset-liability

management in the public sector. There has been a global financial management reform agenda where governments follow the private sector management practices to promote economy, efficiency, and effectiveness in the public sector. In 2011, the Malaysian government decided to adopt accrual accounting, setting the target to implement in 2015. A year lapse was given for the state governments for full implementation, which should be in 2016. However, due to a series of multifaceted challenges encountered by both federal and state governments, the timeline for full implementation has undergone multiple extensions. The most recent timeline adjustments specify the federal government's aim for complete implementation by 2022, while the state government's target has been extended to 2023.

### **Challenges in Accrual Accounting Implementation in Malaysian Public Sector**

Accrual accounting is an accounting methodology under which transactions are recognised as the underlying event occurs. As mentioned by the Accountant General of Malaysia, to become a high-income nation, one of the key priorities is strengthening and reforming fiscal discipline. Fiscal discipline refers to the government's ability to manage its finances responsibly and avoid overspending. It is important for Malaysia to have fiscal discipline to attract foreign investments, create jobs, and grow the economy. Issues and challenges are inevitable wherever change is instituted (Gomes et al., 2015). Even with the successful transitions witnessed in various countries, critics continue to raise objections and arguments. Considering this ongoing discourse, this paper undertakes a comprehensive review of the challenges encountered by countries during the implementation of accrual accounting, particularly in Malaysia's experience.

#### ***Resistance to Change***

The Malaysian federal government has been using cash-based accounting since independence. In 1974, the federal government adopted the modified cash-based accounting (Saleh et al., 2012). Due to government expansion in activities and limited economic resources, a move to accrual-based accounting is a vital decision to put Malaysia at the same level as developed countries. The argument is that this transformation will provide better financial reporting, reflect the actual financial position and provide the total cost of services (Saleh & Pendlebury, 2006). However, the move is not without its challenges.

The main issue when implementing change is to engage people in embracing the change. Change is frequently unsuccessful when organisations immediately impose transformations before employees are mentally and emotionally prepared, thus negatively impacting employee commitment (Jones et al., 2005) and resulting in abrupt change termination (Nilsen et al., 2016). Moreover, for countries that have attempted to implement accrual-based budgeting, it was found that resistance from many has restricted their efforts to implement budgetary reform. Abdul Rashid, Sambasivan and Abdul Rahman (2004) have discovered that when information about a specific change is not communicated well, employees and managers may exhibit resistance or become confrontational. They found that one of the most important factors is poor communication. When employees and managers do not understand the reasons for the change, they are more likely to resist it. They may also be concerned about the impact of the change on their jobs or careers. The unfamiliarity of the new system may generate concerns about potential errors or difficulties in comprehending its intricacies.

#### ***Developing and Integrating a New Accounting System***

One of the most challenging aspects of the entire project is developing the new accrual accounting system, Government Financial and Management Accounting System (GFMAS). GFMAS is a Systems Applications and Products (SAP) based accounting system that needed major customisation to meet the specific needs of the government. SAP is a general-purpose

accounting system that is not designed to meet the specific needs of governments. This means that the government needs to customise SAP to meet its specific requirements. This is a complex and challenging process that requires a lot of expertise and resources. A major customisation required for GFMS is dual ledger capabilities – one for accrual accounting and one for cash accounting. To develop dual ledger capabilities, a fully customised module has to be added to the existing standard accrual SAP system. This fully customised module will receive all accrual transactions from the existing standard accrual SAP general ledger and make postings to a separate ledger using cash basis rules. The development of these cash basis rules is complicated due to the massive number of transaction types available in the government.

Integrating GFMS with other existing government systems is another challenging aspect of the system development. This is because the existing systems were not designed to be integrated with an accrual accounting system. This means that the government needs to make significant changes to the existing systems to make them compatible with GFMS. This may be due to insufficient capacity and availability of subsystems and functionalities required. Significant systems that need to be integrated into the new accrual accounting system include procurement and payment (eServices, ePerolehan, HRMIS and PMS) and fixed asset management systems (SPA and MYSPATA). The integration has to be done carefully and properly, otherwise, the whole system could fail.

### ***Opening Balance and Valuation of Assets***

Determining the complete list of assets owned or controlled by the Federal government is one of the biggest challenges in obtaining the opening balance for accrual accounting. The Government has a vast array of assets, many of which are not well-documented. This makes it difficult to get an accurate picture of the government's assets. Currently, the Federal government maintains immovable assets (land and building) information in the MYSPATA system and movable assets (office equipment) in the SPA system. (Nazatul, 2018) The government uses the information from the MYSPATA and SPA systems to help build the list of government fixed assets. However, these systems are not comprehensive, and they do not include all of the government's assets. This means that the government still needs to conduct physical inventories and review records to identify its assets.

The government is also facing challenges in determining the accurate value of its assets. The value of assets can change over time due to various factors, such as inflation, depreciation, and changes in market conditions. This can make it difficult to determine the accurate value of assets, especially if the government's records are not up to date. The government is using a variety of methods to determine the accurate value of its assets, including valuing assets at market value, which is the price that an asset could be sold for in the open market. Besides that, the Government values assets at a depreciated value, which is the value of an asset after it has been used for a period of time. Furthermore, the Government values assets at replacement cost, which is the cost of replacing an asset with a similar asset. The information is then reconciled to other sources of information. For example, for land and buildings, the list of properties is compared to the Federal Land Commissioner database to ensure completeness and accuracy. (Nazatul, 2018). The reconciliation process has identified inaccuracies in the data from both systems. This is not surprising, as data are often incomplete or inaccurate. The Government is working to correct the inaccuracies in the data. This includes updating the records in the MYSPATA and SPA systems and reconciling the data to other sources of information. As a result of this exercise, it was found that inaccurate data were present, leading to the implementation of data cleansing activities in both the agency and the Federal Land Commissioner databases. (Nazatul, 2018). Data cleansing is the process of identifying and correcting inaccurate or incomplete data. It is an important part of ensuring the accuracy and reliability of data. However, there are some limitations to data cleansing. For

example, the data can be siloed in different systems, making it difficult to cleanse for accrual accounting. This is because each system may have its own data cleansing rules and procedures.

### ***Accounting Policies and Standards***

Applying accounting policies and standards in the Malaysian Government can be a complex and challenging task due to the size and diversity of the government services. The Malaysian government provides a wide range of services, from education and healthcare to defence and transportation. This diversity of services can make it difficult to apply accounting policies and standards consistently across all government agencies. Moreover, government agencies in Malaysia often have limited resources, making it difficult to implement and maintain accounting systems that comply with all applicable standards.

Accounting policies and standards that need to be considered before implementing accrual accounting include the recognition of tax revenue and the valuation of military assets, infrastructure assets, and natural resources. The tax revenue is often received in arrears, which means it is received after the services have been provided. This can make it difficult to determine when to recognise tax revenue in accrual accounting. Military assets are often unique and difficult to value. This can make it difficult to determine the fair value of military assets in accrual accounting. The infrastructure assets are often long-lived and have a significant impact on the government's financial position. This can make it important to consider the valuation of infrastructure assets carefully when implementing accrual accounting. Natural resources are often non-renewable and have a significant impact on the government's financial position. This can make it important to consider the valuation of natural resources carefully when implementing accrual accounting.

### ***Costly and Time Consuming***

Implementing the accounting standards is time and money-consuming (Biraud, 2010). The IPSAS board points out that when an entity first adopts IPSAS, it may not have comprehensive information about the existence of all assets under its control and may require a period of time to obtain and compile appropriate records to account for such assets. This is why it typically takes several years for countries to complete the migration to accrual accounting. For example, in New Zealand, the process took ten years, while in the United Kingdom and Sweden, it took seven and eight years, respectively (Irvine, 2011). The transition period may take a few years to adopt the standard's requirements fully. The transition to accrual accounting in public organisations is not cost-neutral; instead, it leads to higher costs not offset by savings due to using accrual accounting information (Connolly & Hyndman, 2006; Edwards, 2023). Specifically, accounting change is a continuous process involving initial and ongoing costs. The total cost of implementing accounting standards will vary depending on the size and complexity of the government entity, as well as the number of accounting standards that need to be implemented. However, it is typically a significant investment.

In the initial phase, additional costs are due to the identification and valuation of public organisations' property and other assets, the determination of their carrying amount, the retraining of the staff and the setting up of specific software (Caperchione, 2000). When a government entity first adopts accrual accounting, it may not have comprehensive information about the existence of all assets under its control. This information needs to be gathered and then valued in accordance with accrual accounting principles. This can be a time-consuming and expensive process. A substantial cost increase in the following implementation phase is often related to further investments in information systems, the growing request for professionally qualified accountants and consultancy, and even audit fees (Redmayne & Laswad, 2013). These costs often divert money from front-line services to the administration

budget. Thus, the benefit of accrual accounting is not immediate, nor can it be taken for granted (Adhikari & Garseth-Nesbakk, 2016; Christiaens & Rommel, 2008; Hyndman & Connolly, 2011; Humphrey et al., 1993; Olson et al., 2001).

### ***Challenges to the National Audit Department***

According to Article 106 of the Federal Constitution, the Auditor General has the powers and duties to audit and report on the accounts of the Federal and States. The National Audit Department (NAD) of Malaysia is entrusted to ensure the existence of accountability in the administration and management of public funds through the audit of accounts and activities of the government agencies. The change of the accounting system to accrual accounting would result in the reform of the NAD and impact on their scope of audit, audit procedures and audit objectives would be changed after the implementation of the accrual accounting. The NAD would need to expand its scope of audit to cover all assets and liabilities, not just cash. This is because accrual accounting recognises assets and liabilities when they are incurred or acquired, not when they are paid for. Moreover, the NAD would need to adopt new audit procedures to audit accrual accounting financial statements. These procedures would be more complex and require more judgment than the procedures used to audit cash-based financial statements.

Besides that, the accounting standard that the government agencies use would be pretty similar to the private sector after the change. This is because accrual accounting is the most widely accepted accounting standard in the world. In fact, in the National Audit Department Convention in 2006 (NAD, 2006, as cited in Hasan & Yeow, 2012), the government intends to use the fair value concept to reflect the true situation of the government agencies. Fair value is the price that an asset or liability could be exchanged for in an orderly transaction between market participants at the measurement date. This concept is used in the private sector to value assets and liabilities, and it will also be used by government agencies under accrual accounting. Another issue on which the NAD should focus is assets and liabilities valuation. By moving to full accrual accounting means that each government department has to identify and value its assets and liabilities and bring them into a Statement of Financial Position. This can be a challenging task, as many government assets and liabilities are not easily valued.

### **Key success factors in implementing Accrual Accounting in Malaysian Public Sector**

#### ***Establish a Team Project***

Establishing a team project is a good strategy for implementing accrual accounting for the Malaysia Public Sector. The team should have representatives from the Accountant General's Department of Malaysia (AGD), Ministry of Finance, Relevant Government agencies, and accounting professionals. This will ensure that the team has the expertise and experience to oversee the implementation process. The team should have a clear mandate to oversee the implementation process, which should include the tasks, for example, developing a detailed plan for the implementation of accrual accounting. This plan should include a timeline for the implementation, the resources needed, and the risks that need to be mitigated. Additionally, the team should train government employees on the new accrual accounting system. This training should ensure that employees understand how to use the system and how to record financial transactions under accrual accounting. Moreover, the team should migrate the government's accounting system to accrual accounting. This migration process can be complex and time-consuming, so it is important to have a well-defined plan in place. Furthermore, the team should monitor the implementation process and adjust as needed. This is important to ensure that the implementation is on track and that the new system is working as expected.

The project team should also communicate regularly with stakeholders throughout the implementation process. This will help to ensure that everyone is aware of the progress of the project and that any concerns are addressed promptly. By establishing a team project and following these steps, the Malaysia Public Sector can successfully implement accrual accounting. This will improve the accuracy and transparency of government financial reporting, and it will also help to improve the accountability of government agencies.

### ***Develop Accounting Policies and Procedures***

Establishing comprehensive accounting policies and procedures that align with accrual accounting standards, such as the Malaysian Public Sector Accounting Standards (MPSAS), is essential for the successful implementation of accrual accounting in Malaysia. This will help to ensure that the accrual accounting system is consistent and reliable. These policies should cover asset recognition, measurement, valuation, revenue recognition, and expense recognition. By establishing comprehensive accounting policies and procedures, the Malaysian Government can improve the accuracy and transparency of government financial reporting. This is because the accounting policies and procedures will provide clear guidance on how to record financial transactions and prepare financial statements. Additionally, the Malaysian Government can improve the accountability of government agencies. This is because the accounting policies and procedures will provide clear guidance on how to manage assets and liabilities and how to record and report financial transactions. Moreover, the Malaysian Government can increase public trust in the government. This is because the public will be able to have more confidence in the accuracy and transparency of government financial reporting.

The Malaysian Government could pilot the policies and procedures in a few government agencies or departments before rolling them out to all departments. This is an excellent way to identify any potential problems with the policies and procedures and to make necessary adjustments before they are implemented in the accrual accounting in all departments. Therefore, the Malaysian Government can ensure comprehensive accounting policies and procedures are established for accrual accounting. This will help to improve the accuracy and transparency of government financial reporting, and it will also help to improve the accountability of government agencies.

### ***Awareness of Accrual Accounting***

Understanding the accrual accounting concept could aid regulators in evaluating the importance of designing the most optimal accounting approach. Thus, there is a need to foster a cultural change among public servants from a focus on cash-based information to accrual-based information (Monteiro & Gomes, 2013). The environment in developing countries is known to be more hostile to successful reform when compared to developed countries due to constrained resources, inadequate skills and lack of reserves available should they encounter surprises and difficulties during their implementation (Athukorala & Reid, 2003).

The Malaysian government has been in the process of reforming its accounting system from cash accounting to accrual accounting since 2010. This reform is being driven by the GTP and the NEM, which are both aimed at improving the efficiency and transparency of public sector financial management. Accrual accounting is a more comprehensive and accurate way of accounting for financial transactions than cash accounting. It recognises expenses and revenues when they are incurred or earned, regardless of when cash is actually paid or received. This provides a more accurate picture of the Government's financial position and performance. The Malaysian Government has decided to implement accrual accounting in phases. The first phase, which is currently underway, involves adopting and applying pertinent

accrual accounting aspects in financial reports and budgets. This will help to prepare the government for the full implementation of accrual accounting in the future.

### ***Enhancement of Financial Systems and Infrastructure***

Accrual accounting is a more sophisticated accounting method than cash-based accounting, requiring a more robust financial system to implement successfully. This is because accrual accounting records revenues and expenses when earned or incurred, regardless of when cash is received or paid. This means that accrual accounting systems need to be able to track a wider range of transactions and make complex calculations.

Currently, the Government Financial and Management Accounting System (GFMAS) is the new accounting software that is specifically designed for accrual accounting. This software should be able to track a wide range of transactions and make complex calculations. The Government will need to train its staff to use the new accounting software. This training should cover the basics of accrual accounting, as well as how to use the software to record transactions and generate reports. Moreover, the Government will need to implement new systems for collecting data needed for accrual accounting. This data may include information about assets, liabilities, revenues, and expenses. Furthermore, the Government will need to make sure that the data that is collected is accurate and reliable. This will require the government to put in place procedures to ensure the quality of the data. Therefore, the government of Malaysia can enhance its financial systems and infrastructure to support the transition to accrual accounting. This will help the Government to achieve the benefits of accrual accounting, such as more accurate financial reporting, improved decision-making, and increased transparency.

### ***Pilot Testing***

Before full-scale implementation, conduct pilot testing in selected government agencies or departments to evaluate the effectiveness of the new accrual accounting system. Pilot testing is a critical step in implementing any new system, and it is especially important for a complex system like accrual accounting. Pilot testing can help to identify any potential issues with the system, such as inaccuracy or incompleteness of data, problems with the software or hardware and lack of understanding of the system by staff members. Pilot testing can also help to fine-tune the system and to train staff members in a controlled environment. This can help to ensure that the system is working properly and that staff members are able to use it effectively before it is implemented on a wider scale. Moreover, when conducting pilot testing, it is important to select a representative sample of government agencies or departments. This will help to ensure that the results of the pilot testing are generalisable to the broader population. It is also important to involve key stakeholders in the pilot testing process, such as accountants, auditors, and government officials. This can help to ensure that the pilot testing is comprehensive and that the results are taken seriously.

Providing feedback to staff members on their performance during the pilot testing can be very helpful in ensuring that the accrual accounting system is ready for full-scale implementation. The feedback can help to identify areas where staff members need additional training or support, and it can also help to identify any potential issues with the system that need to be addressed. By providing feedback to staff members during the pilot testing, the government of Malaysia can ensure that they are prepared for the full-scale implementation of the accrual accounting system. This will help to ensure that the system is implemented successfully and that it is used effectively to manage the government's finances.



### ***Provide Ongoing Support and Training Programs***

Offering continuous support and guidance to staff members to ensure the successful operation and maintenance of the accrual accounting system is essential. This is because accrual accounting is a complex system, and it can be difficult for staff members to learn how to use it effectively. This may involve establishing help desks where the staff members can get help with technical problems, providing access to resources and reference materials such as online tutorials and FAQs, and conducting periodic refresher courses to enhance the skills and knowledge of staff members. By providing continuous support and guidance to staff members, the government can help to ensure that the accrual accounting system is used effectively and that it is maintained properly. This will help to ensure the success of the implementation of accrual accounting in Malaysia.

Conducting training programs and workshops will help to educate key stakeholders, government officials, and staff members about accrual accounting concepts, principles, and practices. When designing training programs and workshops, it is important to consider the specific needs of the audience. For example, government officials may need a different level of training than staff members. It is also important to use a variety of methods to deliver the training, such as lectures, case studies, and hands-on exercises. Training programs and workshops can help to increase the knowledge and understanding of accrual accounting among all stakeholders. This will help them understand the benefits of accrual accounting and how it can be used to improve financial management. Besides, training programs and workshops can also help to improve their skills and help them to use the system effectively and to produce accurate financial reports.

### ***Accountability and Stewardship of the National Audit Department***

NAD auditors must also fully understand the new requirements of IFRS in auditing (NAD, 2007a). Therefore, a detailed audit plan and substantive audit evidence may be required, especially in the first-time adoption of accrual accounting in the financial statements. Moreover, additional audit objectives should be developed for the accrual accounting system, such as the evaluation of a new computer system installed, the existence of the assets, the right and obligation for the liabilities, the certification of memorandum trading accounts or a provision of stock certification (Jones & Bates, 1990). Hence, NAD officers need to have a deep understanding of accrual accounting in order to audit government agencies that use this system. By gaining a deep understanding of accrual accounting, NAD officers will be better equipped to develop suitable audit objectives, procedures, and programmes for government agencies that use this system. This will help to ensure that the audits are effective and that the government's financial statements are accurate and reliable.

The NAD needs to carry out yearly physical inspections of all buildings and facilities that require structural, electrical and mechanical maintenance to ensure that all properties of the Malaysian mission offices are properly maintained. Moreover, the NAD needs to ensure that the data centre and network are properly operated and maintained. This includes ensuring that the equipment is in good working order, that the security measures are adequate, and that the data is backed up regularly. Furthermore, the NAD needs to ensure that access to the data centre and network is restricted to authorised personnel. This includes implementing physical security measures, such as locks and guards, and logical security measures, such as passwords and firewalls. The auditor would need to assess his evaluation of internal controls on the new system (Jones & Bates, 1994). Auditors can use the Computer Assisted Audit Techniques and Tools (CAATTs) to facilitate the implementation of the audit procedures. The audit techniques include auditing around the computer, auditing through the computer and auditing with the computer (NAD, 2006). The auditor must select the appropriate audit technique or combination of techniques for the specific audit engagement.

## ***Accounting Framework Evaluation and Monitoring***

Establishing a monitoring and evaluation framework to assess the effectiveness of the accrual accounting system after implementation is essential for the successful implementation of accrual accounting in Malaysia. This will help to ensure that the accrual accounting system is meeting the needs of the government and that it is being used effectively. This includes reviewing financial reports produced by the accrual accounting system should be reviewed regularly, analysing the impact on financial management and decision-making, and addressing any issues or improvements needed to ensure compliance with MPSAS and international standards should be addressed promptly. When establishing a monitoring and evaluation framework, it is important to consider the specific needs of the government of Malaysia. The involvement of key stakeholders in the development of the framework is important to make sure that the framework is clear and concise. This will help to ensure that all staff members understand it. Besides that, the framework should be regularly reviewed and updated. This will help to ensure that it is up-to-date with the latest developments.

Some specific areas could be monitored and evaluated, for example, the accuracy and completeness of financial reports and the impact of accrual accounting on financial management and decision-making. Furthermore, the compliance of the accrual accounting system with MPSAS and IPSAS and the satisfaction of stakeholders with the accrual accounting system. By monitoring and evaluating these areas, the government of Malaysia can ensure that the accrual accounting system is meeting the needs of the government and that it is being used effectively.

## **Conclusion**

Globally, there are not many countries that have fully complied with the accrual accounting requirements under the IPSAS. There are a lot of variations in adoption. Malaysia's approach is to comply fully with the relevant standards, although this may take a few years to achieve. Accrual accounting is a more comprehensive and accurate way of accounting for financial transactions than cash accounting. This is because accrual accounting recognises revenues and expenses when they are incurred, not just when they are received or paid. This can help ministries and agencies in Malaysia to be more financially accountable for their respective revenues and expenditures.

In conclusion, the journey towards accrual accounting has been challenging for many countries, including Malaysia. To make this transition meet its objectives, commitment, full support and cooperation from everyone is needed. Implementing accrual accounting in the Malaysian public sector requires a well-structured and comprehensive strategy. By following the steps outlined above, the transition from a cash-based accounting system to accrual accounting can be accomplished. Establishing a dedicated project team, conducting a thorough gap analysis, and developing an implementation plan are critical steps. Providing training programs and enhancing financial systems and infrastructure are essential for ensuring a smooth transition. Developing accounting policies and procedures aligned with accrual accounting standards, conducting pilot testing, and engaging stakeholders through effective communication are key elements of a successful implementation. Ongoing monitoring, evaluation, support, and continuous training are vital for the sustained operation and maintenance of the accrual accounting system in the Malaysian public sector. By following this implementation strategy and leveraging the expertise of relevant stakeholders, Malaysia can achieve greater transparency, accountability, and financial management effectiveness in its public sector.

In-depth qualitative research could be conducted to explore the perceptions, concerns, and expectations of various stakeholders regarding the shift to accrual accounting. By addressing

these recommended areas of future research, scholars and policymakers can deepen their understanding of the complexities and opportunities associated with implementing accrual accounting in the public sector.

## References

- Adhikari, P., & Gårseth-Nesbakk, L. (2016, June). Implementing public sector accruals in OECD member states: Major issues and challenges. In *Accounting Forum* (Vol. 40, No. 2, pp. 125-142). No longer published by Elsevier.
- Athukorala, S. L., & Reid, B. (2003). Accrual budgeting and accounting in government and its relevance for developing member countries.
- Baker, R. O. N., & Rennie, M. D. (2006). Forces Leading to the Adoption of Accrual Accounting by the Canadian Federal Government: An Institutional Perspective\*/LES FORCES AYANT MENÉ L'ADMINISTRATION FÉDÉRALE CANADIENNE À ADOPTER LA COMPTABILITÉ D'EXERCICE: UNE PERSPECTIVE INSTITUTIONNELLE. *Canadian Accounting Perspectives*, 5(1), 83-112.
- Biot-Paquerot, G., Rossignol, J. L., & La Rochelle, G. D. C. (2006). Performance management in the public sector: Development and implementation of process-oriented performance measurement system in French universities. In *European Accounting Association Conference, Dublin, Ireland*.
- Biraud, G. (2010). Preparedness of United Nations system organizations for the international public sector accounting standards (IPSAS). *Joint Inspection Unit, United Nations, Geneva*.
- Calabrese, T. D., & Gupta, A. (2023). Nonprofit accounting choice. *Research Handbook on Nonprofit Accounting*, 36.
- Caperchione, E. (2000). Trends and open issues in governmental accounting systems: some elements of comparison. In *Comparative issues in local government accounting* (pp. 69-85). Boston, MA: Springer US.
- Champoux, M. (2006). Accrual accounting in New Zealand and Australia: issues and solutions. *Briefing paper*, (27), 1-24.
- Christiaens, J., & Rommel, J. (2008). Accrual accounting reforms: only for businesslike (parts of) governments. *Financial Accountability & Management*, 24(1), 59-75.
- Connolly, C., & Hyndman, N. (2006). The actual implementation of accruals accounting: Caveats from a case within the UK public sector. *Accounting, Auditing & Accountability Journal*, 19(2), 272-290.
- Edwards, J. R. (2023). Cash to accruals accounting in British central government: A journey through time. *Financial Accountability & Management*, 39(1), 40-59.
- Gomes, D., Giovannoni, E., Gutiérrez-Hidalgo, F., & Zimnovitch, H. (2015). Moving from regional to international publishing in accounting history: Pressures, issues, strategies and implications. *Accounting History*, 20(2), 183-205.
- Hasan, H. A., & Yeow, P. S. (2012). Changing Accounting System: Challenges for the Public Sector Auditors. *IPN Journal of Research and Practice in Public Sector Accounting and Management*, 1, 1-12.
- Humphrey, C., Miller, P., & Scapens, R. W. (1993). Accountability and accountable management in the UK public sector. *Accounting, Auditing & Accountability Journal*, 6(3), 0-0.
- Hyndman, N., & Connolly, C. (2011). Accruals accounting in the public sector: A road not always taken. *Management accounting research*, 22(1), 36-45.
- Irvine, H. (2011). From go to woe: How a not-for-profit managed the change to accrual accounting. *Accounting, Auditing & Accountability Journal*, 24(7), 824-847.
- Jones, P., & Bates, J. G. (1994). Public sector auditing: practical techniques for an integrated approach.
- Jones, R. A., Jimmieson, N. L., & Griffiths, A. (2005). The impact of organizational culture and reshaping capabilities on change implementation success: The mediating role of readiness for change. *Journal of management studies*, 42(2), 361-386.
- Monteiro, B. R. P., & Gomes, R. C. (2013). International experiences with accrual budgeting in the public sector. *Revista Contabilidade & Finanças*, 24, 103-112.
- NAD (2006), "Integrity and Accountability in the Civil Service", Pusat Konvensyen Antarabangsa Putrajaya.
- Nazatul-Izma, (2018). Retrieved from <https://www.at-mia.my/2018/01/01/migrating-to-accrual-accounting/>.
- Nilsen, E. R., Dugstad, J., Eide, H., Gullslett, M. K., & Eide, T. (2016). Exploring resistance to implementation of welfare technology in municipal healthcare services—a longitudinal case study. *BMC health services research*, 16, 1-14.
- Olson, O., Humphrey, C., & Guthrie, J. (2001). Caught in an evaluatory trap: a dilemma for public services under NPFM. *European Accounting Review*, 10(3), 505-522.
- Ouda, H., & Jorge, S. (2021). *Practice-relevant accrual accounting for the public sector*. Springer International Publishing.
- Pollitt, C. and G. Bouckaert (2004), *Public Management Reform – A Comparative Analysis* (Oxford University Press, Oxford).
- Rashid, Z. A., Sambasivan, M., & Rahman, A. A. (2004). The influence of organizational culture on attitudes toward organizational change. *Leadership & organization development Journal*, 25(2), 161-179.
- Redmayne, N. B., & Laswad, F. (2013). An assessment of the impact of IFRS adoption on public sector audit fees and audit effort—some evidence of the transition costs on changes in reporting regimes. *Australian Accounting Review*, 23(1), 88-99.

- Saleh, Z., Isa, C. R., & Hasan, H. A. (2012). Accrual accounting: Change and managing change. *IPN Journal of Research and Practice in Public Sector Accounting and Management*, 2(4), 41-52.
- Saleh, Z. & Pendlebury, M.W. (2006), Accruals Accounting in Government – Development in Malaysia, *Asia Pacific Business Review*, 12(4), 421-435.
- Smith, V., Lau, J., & Dumay, J. (2022). Shareholder use of CSR reports: an accountability perspective. *Meditari Accountancy Research*, 30(6), 1658-1679.
- Wynne, A. (2003). Do private sector financial statements provide a suitable model for public sector accounts. *European Group of Public Administration*, 1-22.
- Zar, H., & Mozdabadi, S. (2013). Accrual-based accounting system versus cash-based accounting: An empirical study in municipality organization. *Management Science Letters*, 3(1), 251-256.