

The Malaysian Public Sector Accounting Standards (MPSAS) Adoption among Malaysian Statutory Bodies: A Literature Review with a Future Research Direction

Zubir Azhar¹, K. Kishan^{1,*}, Ervina Alfian²

¹*Universiti Sains Malaysia*

²*Universiti Malaya*

*Corresponding Author Email: kishan@usm.my

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Abstract

Purpose: This study reviews literature on accrual accounting implementation in the public sector with a specific focus on studies that are related to Malaysian Public Sector Accounting Standards (MPSAS).

Methodology: 73 journal articles between 1998 and May 2022 were reviewed, in addition to relevant conference papers, government documents, such as circulars, and legal records, including Acts of Parliament or statutes.

Findings: Resultantly, two interrelated gaps in the existing MPSAS adoption literature were revealed. The first gap was due to research scarcity on statutory bodies while the second emanated from legal factors influencing MPSAS adoption among statutory bodies. Accordingly, a future research direction was proposed to investigate the factors influencing the MPSAS adoption level among Malaysian statutory bodies. Simultaneously, several pertinent areas, including degrees of complexity, technical factors, political elements, cultural aspects, and legal facets were highlighted to Malaysian statutory bodies when adopting the MPSAS to enable smooth MPSAS implementation.

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Originality/Value: This review is one of the first to examine literature related to MPSAS as prior reviews were on accrual accounting in the public sector in general or International Public Sector Accounting Standards (IPSAS).

Keywords: Accrual accounting, MPSAS, statutory bodies, Malaysia.

1. Introduction

Adopting accrual accounting in the public sector is a paradigm shift from bureaucracy to a managerial approach worldwide. The international development was owing to the introduction of New Public Management (NPM), which emphasises improvements in governmental planning, control, transparency, and accountability (Connoly, 2006; Lapsley & Miller, 2019), specifically financial management. Hoque et al. (2004) asserted that the PSAA adoption was conducive to enhanced efficiency, effectiveness, and accountability by improving budgetary capabilities in governmental programmes and services. Correspondingly, governmental accrual accounting was formalised by adhering to the International Public Sector Accounting Standards (IPSASs) established by the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC). The IPSASs are based on international private-sector accounting standards stipulated by global organisations, such as the European Union, the North Atlantic Treaty Organization (NATO), and the Organisation for Economic Co-operation and Development (OECD) with relevant inputs from other countries, including Australia and South Africa. Generally, IPSASs focus on financial statements at various governmental levels, particularly spending limits and accountability to ensure adequate cash flows and balances (Gigli & Mariani, 2018; Guthrie, 1998; Keerasuntonpong et al., 2019).

Public sector performance involves outputs, efficiency, results, and outcomes of pertinent programmes and activities. Simultaneously, public sector performance encompasses managers' accountability in terms of the entire operational cost, consideration of long-term obligations, and overall financial position (Birdsall, 2018; Lapuente & van de Walle, 2020). To ensure optimal public sector performance, accrual accounting is integral to providing an accurate assessment of service provision expenditures and programme or activity effectiveness in different nations, including Malaysia. To formalise governmental accrual accounting, the Malaysian federal government implemented a localised IPSAS variant, namely the Malaysian Public Sector Accounting Standards (MPSASs), with a planned complete adoption on 1 January 2015. Nonetheless, comprehensive MPSAS adoption occurred subsequently due to a series of postponements (Ismail et al., 2018; Ismail, 2022) to account for concerns about expenditures on public outlays through tax revenues. Notwithstanding, the government reassured that the public spending was negligible to the anticipated positive social outcome. Moreover, cash-based accounting remained an important foundation for macroeconomic analyses. Nevertheless, accrual accounting

acceptance in the public sector gradually increased when a more efficient government observably practised systematic financial management.

Based on current literature, accrual accounting was primarily developed for private enterprises with commercial business objectives to measure financial efficiency. Nevertheless, accrual accounting adoption in the public sector is an initiative to improve financial reporting quality and transparency (Azhar et al., 2022). Despite the MPSAS development with significant effects on the functions and roles of public sector entities, limited studies appraised the application effectiveness and consequences for statutory bodies. Furthermore, the MPSAS adoption level among statutory bodies was not optimal, which inspired this study to review relevant studies before suggesting a pertinent research direction to assess the factors influencing the MPSAS adoption degree in Malaysia. Resultantly, several pivotal areas were highlighted to the Malaysian statutory bodies in adopting MPSASs. The subsequent study section outlines the research methodology employed to achieve the study objectives, followed by reporting the current findings with relevant discussions and concluding remarks.

2. Research Methodology

The present study employed a two-step research methodology, wherein the first step developed a review protocol encompassing database selection, research time frame, search fields, language, document types, and keywords. Specifically, five popular databases, namely Emerald, ScienceDirect, Wiley, Taylor and Francis, and Sage, comprising studies from 1990 to May 2022 were employed. The search field was stipulated for the study abstract instead of the study title to allow an in-depth examination of the research scope. To fulfil the current research objectives, several keywords, including “public sector accrual accounting”, “government accrual accounting”, “MPSAS”, and “statutory bodies” were employed to search all pertinent English journal articles within the time frame, which is the second step.

The inclusion criteria were studies appraising (1) accrual accounting in the public sector, (2) factors influencing or inhibiting accrual accounting adoption in the public sector, and (3) MPSAS adoption among statutory bodies. Due to limited MPSAS adoption studies, past studies in different countries were also scrutinised to examine governmental accrual accounting implementation. Particularly, articles were screened based on the abstracts and the current search criteria. An initial search included several hundred results, which were subsequently narrowed down to 73 journal articles between 1998 and May 2022 in line with the present study objectives. In addition, relevant conference papers, government documents, such as circulars, and legal records, including Acts of Parliament or statutes, were reviewed.

3. Findings

The current section contains four main subsections with the first subsection discussing factors influencing accrual accounting adoption in the public sector, while the subsequent subsection

examines factors inhibiting the adoption. The third subsection summarises selected international studies investigating accrual accounting adoption among governmental institutions, followed by the final subsection elucidating the Malaysian accrual accounting adoption experience via MPSASs.

3.1 Factors Influencing Accrual Accounting Adoption in the Public Sector

Accrual accounting in the public sector is advocated globally due to the significant benefits to governments, in which more transparent information is attained for effective decision-making (Caruana & Zammit, 2019; Chow & Pontoppidan, 2019; Hyndman & Connolly, 2011; Lye et al., 2005; Nogueira et al., 2013). Transparent information would allow optimal resource allocation, planning, and control by governments, which would be conducive to effective asset valuation (Christiaens et al., 2012) and depreciation estimation (Molland & Clift, 2008). Furthermore, accrual accounting could promote higher financial accountability and transparency (Muraina & Dandago, 2020; Sellami & Gafsi, 2019; Sylvia et al., 2018) to reduce government agency costs (Caruana & Zammit, 2019) and diminish corruption risks (Cuadrado-Ballesteros et al., 2019; Harun et al., 2012; Prabowo et al., 2017; Sellami & Gafsi, 2019). Concurrently, accrual accounting could ensure higher governmental efficiency by transforming an input-oriented method to an output-oriented approach, thereby improving management capabilities and elevating higher economic outputs (Lampe et al., 2015).

Certain countries would be less motivated to adopt accrual accounting in the public sector, especially with high dependency on financial aid, loans, and bailouts from the International Monetary Fund or World Bank, or with low acceptance and preparedness for the transition (Adhikari et al., 2013; Harun et al., 2012; Mbelwa et al., 2019). Similar situations were notable in former colonies of Western countries, as the shift was regarded as another form of neo-colonialism (Lassou et al., 2019). Meanwhile, countries without receiving financial aid might receive indirect institutional pressure from international organisations, namely the OECD and the United Nations (UN), to embrace accrual accounting in the public sector (Adhikari & Gårseth-Nesbakk, 2016; Chow & Pontoppidan, 2019). The institutional pressure would constrain the autonomy of relevant central, state, municipal, and local governments in willingly adopting accrual accounting (Falkman & Tagesson, 2008; Reginato, 2010), aside from private institutions, such as universities (Gigli et al., 2018; Upping & Oliver, 2012).

3.2 Factors Inhibiting Accrual Accounting Adoption in the Public Sector

3.2.1 Implementation Challenges

Several governmental accrual accounting implementation challenges, such as delayed transition inevitably exist. For instance, the British transition occurred over approximately a decade (Hyndman & Connolly, 2011), not unlike similar lengthy transition periods reported in

other countries (Buhr, 2012). Moreover, the reformation was forfeited when the challenges were highly intractable in several nations (Adhikari & Jayasinghe, 2017).

3.2.2 Complexity

In Connolly and Hyndman (2006), the actual accrual accounting implementation in the public sector was highly different from the government proposal, which was frequently over-optimistic due to underestimated complexity (Adhikari et al., 2019; Adhikari & Mellemvik, 2011; Jorge et al., 2007) and exorbitant transition costs (Hyndman & Connolly, 2011; Lassou et al., 2019). In addition, numerous studies demonstrated that governmental accrual accounting adoption generated limited tangible benefits (Christofzik, 2019; Gigli et al., 2018; Pollanen & Loiselle-Lapointe, 2012; West & Carnegie, 2010). Resultantly, low adoption levels were evident in various nations (Agasisti et al., 2015; Falkman & Tagesson, 2008; Harun et al., 2012; Reginato, 2010) aside from ineffective government oversight underlying the low compliance (Caruana & Zammit, 2019).

3.2.3 Technical Factors

The technical factors contributing to governmental accrual accounting adoption include sufficient human resources with adequate technical skills and knowledge (Adam et al., 2020), information technology systems (Upping & Oliver, 2012) and a clear implementation framework within a definite time frame (Bruno & Lapsley, 2018). Accordingly, insufficient human capital, especially trained accountants with the necessary expertise and technical skills, would adversely affect accrual accounting implementation in the public sector (Becker et al., 2014; Gigli & Mariani, 2018; Ismail et al., 2018; Maimunah, 2016; Salleh et al., 2014; Upping & Oliver, 2012).

3.2.4 Political Factors

Political factors include enacting legislature promoting governmental accrual accounting adoption and the political will to steer successful reformations. Despite strong political wills in countries, such as New Zealand, Australia, and the United Kingdom (Buhr, 2012; Hyndman & Connolly, 2011), politicians' diminishing enthusiasm from the beginning stage would contribute to implementation delays (Polzer et al., 2019). Furthermore, a lack of political will would not only lead to low compliance with the accrual accounting reformation but also engenders bribery kickbacks in Indonesian municipalities (Harun et al., 2012) and attempts to fabricate financial results (Adhikari et al., 2019). Thus, a strict regulatory framework would be rendered ineffective when the adoption is highly influenced by political considerations (Cohen & Leventis, 2013). Moreover, self-interest would negatively impact accrual accounting adoption in the public sector when politicians prioritise personal political career advancement (Falkman & Tagesson, 2008). For example, the Greek election cycle affected the revenue management of local governments, particularly when mayors were re-elected (Cohen et al., 2019). Simultaneously, political interferences in Sweden resulted in a negative alteration in

the public pension fund expense and liability calculation approach, despite the availability of an accrual accounting model (Brorström, 1998). Political ideology would also underpin accrual accounting rejection by the central government of the Republic of Ireland (Hyndman & Connolly, 2011).

3.2.5 Cultural Factors

Cultural factors could impede accrual accounting implementation in the public sector (Polzer & Reichard, 2019) as the adoption requires significant reformations to the entire management culture (Hepworth, 2003). Countries with civil servants exhibiting high change resistance or governments accustomed to cash-based accounting would experience reformation delays, such as the sluggish accrual accounting adoption among local Sri Lankan governments (Dissanayake et al., 2019). Bureaucratic management culture is another obstacle to accrual accounting implementation in the public sector as evidenced by a Thai study (Nakmahachalasint & Narktabtee, 2019). Nonetheless, motivation and education could reduce resistance to change (Becker et al., 2014).

3.3 Accrual Accounting Among Governmental Institutions

Governmental accrual accounting implementation is a prolonged international academic discourse, particularly in developed countries, to promote higher financial transparency and more effective reporting in delivering enhanced public services and performance. Despite extensive academic discussions, accrual accounting adoption degrees in the public sector vary in different governments across the globe. Apart from the major adoption by central, state, and local governments, the implementation is observed in governmental institutions, such as pension funds (Klumpes, 2001), hospitals (Greenwood et al., 2017; Pettersen & Nyland, 2011; Scott et al., 2003), public universities (Gigli & Mariani, 2018; Upping & Oliver, 2012; West & Carnegie, 2010), and government-owned enterprises (Capalbo et al., 2014), which would also directly impact public interests.

3.4 The Malaysian Experience

Before introducing accrual accounting in the public sector, the Malaysian government adopted a modified cash-based accounting. Particularly, transactions were recorded mainly according to the cash received or paid without assets being capitalised and liabilities being reported. Expenditures were based on the amount allocated for the current year with relevant payments being performed until January of the following year (Ministry of Finance, 2013). Since national independence in 1957, the Malayan and the subsequent Malaysian government developed a series of five-year economic plans. During the development of the 11th Malaysia Plan (11MP, 2016 to 2020) in the early 2010s, accrual accounting in the public sector gained prominence, with the mid-term review emphasising prudent public financial management and formulating a strategy to improve public budgeting. Accrual accounting thus became an important element in the reformation when the importance was underscored

in a speech by the incumbent prime minister, which announced that accrual accounting implementation in the public sector would be accelerated (Economic Planning Unit, 2020).

The accrual accounting system would capitalise assets, record liabilities, and prepare public sector financial statements according to the MPSASs adapted from the IPSASs (Ministry of Finance, 2013). Particularly, the MPSASs adopted 35 regulations from the 41 IPSAS clauses. To ensure proper PSAA coordination and implementation, the MPSASs were published in stages from March 2013 to December 2016 with 32 of 35 MPSASs continuing to be employed while removing the remaining three. Meanwhile, three IPSASs were yet to be adopted while another three IPSASs, such as IPSAS 10 Financial Reporting in Hyperinflationary Economies, IPSAS 15 Financial Instruments, and IPSAS 18 Segment Reporting were excluded. The MPSAS utilisation was mandated through a circular issued by the Accountant General's Department of Malaysia in 2017, which outlined three major accrual accounting benefits. Specifically, accrual accounting would result in cost savings through recorded data outputs to allow more effective evaluation in achieving financial outcomes. Asset information would enable a more effective asset valuation and revenue generation while the asset databases would enhance asset management and maintenance, thus delivering improved public services.

According to internally circulated documents of the Malaysian Accountant General's Department, the federal government envisages more effective and efficient fiscal management from accrual accounting adoption through five approaches. Particularly, financial management, transparency, and organisational accountability would be improved while elevating organisational sustainability through complete and comprehensive financial reports. In addition, more effective and efficient measurement of policies would be applied to align with accrual accounting implementation, while simultaneously employing more appropriate financial management indicators to ensure higher accuracy and effectiveness in decision-making. Higher integrity levels would also be ensured through increased efficiency, responsibility, and transparency in financial management, accounting, and necessary reporting.

The initial accrual accounting implementation date in the public sector was specified by the federal government on 1 January 2015. Nevertheless, full implementation was delayed until 1 January 2022 due to numerous hindrances. For instance, existing laws, including the Federal Constitution of Malaysia and the Financial Procedures Act 1957 (2006), were required to be reviewed and amended. Moreover, systematic data collection on government assets, including heritage assets, inventories, agricultural assets, intangible assets, and investment properties was performed in phases from 2015 to 2019. A pilot study was conducted for assets and liabilities at several selected cost centres before a full-scale data collection stage was executed. Simultaneously, the transition to accrual accounting in the public sector adhering to international accounting requirements was enhanced through an agreement between the Malaysian government and the IFAC to adopt IPSASs as the fundamental for the MPSASs. The process commenced in August 2012.

Correspondingly, numerous training sessions were conducted throughout the public departments and governmental sectors for public-sector accountants to be proficient in accrual accounting.

Public sector personnel's readiness to adopt the accrual accounting system is a challenge in Malaysia. Following Noordin et al. (2014), employees' resistance to change was significant at senior organisational levels, in which most employees expressed personal concerns regarding increased workloads and job difficulties from accrual accounting implementation. In 2018, Ismail et al. (2018) reported an increase in Malaysian public sector employees' readiness for accrual accounting implementation, which supported the findings of Atan and Mohamed Yahya (2015). As such, the Malaysian government had undertaken immense steps and initiatives through various governmental accrual accounting programmes, such as seminars, workshops, and training courses to ensure that public servants were equipped with sufficient knowledge and technical skills to embrace the accrual accounting system (Yusof & Jaafar, 2018; Ismail et al., 2018).

A full-scale MPSAS implementation was highly challenging owing to the presence of 132 and 136 statutory bodies at the federal and state levels. According to the Statutory Bodies (Accounts and Annual Reports) Act 2011, a statutory body denotes:

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.

Federal-level statutory bodies, including public universities, Bank Negara Malaysia, the Federal Land Development Authority (FELDA), and Tabung Haji, perform a diverse range of functions, which are essential to positive national development with the presence of optimal governance and efficient financial management. Correspondingly, financial reporting quality and information transparency could be enhanced through MPSASs.

Certain statutory bodies encompass both public and private responsibilities and business interests apart from accountability requirements regarding specific governmental objectives and efficient financial management expectations to ensure high business sustainability anticipated by key stakeholders. While accrual accounting in the public sector potentially ensures transparent accounting of various statutory bodies, concepts of profitability and net worth are also highly prioritised in reporting relevant outcomes of commercial activities, especially in the subsidiaries. As such, private-sector accounting approaches are highly necessitated by employing the Malaysian Financial Standards (MFRS) to account for commercial objectives, which contrasts with the Malaysian governmental aspiration to adopt the MPSASs in public organisations. Although the discovered challenges appear to ease over time, the aforementioned implementation challenges remain when only

limited studies thoroughly examined accrual accounting adoption. More studies are required as the public sector consists of the federal government, state governments, and statutory bodies, with respective establishments constituted through the enactment of specific acts and legislations. Specifically, Azhar et al. (2022) advocated more research on statutory bodies, which possessed organisational structures and objectives dissimilar from governmental agencies and departments at both federal and state levels.

4. Discussion and Concluding Remarks

The present literature review identified two interrelated gaps in the extant MPSAS adoption literature. The first gap exists due to research scarcity on statutory bodies while the second counterpart is concerned with the legal factors influencing MPSAS adoption among statutory bodies. Although prior studies examined governmental accrual accounting adoption at both federal and state levels (Azmi & Mohamed, 2014; Rozaidy & Siti-Nabiha, 2022) or among public-sector accountants (Atan & Mohamed Yahya, 2015; Ismail et al., 2018), research on Malaysian statutory bodies remained limited. Statutory entities play significant roles in national development by achieving superior financial reporting quality, transparency, and accountability. Furthermore, an internal document by the Accountant General's Department revealed that as of 31 July 2021, 88 of 132 federal-level statutory bodies implemented MPSASs (a 67% adoption rate) compared to only 33 of 136 state-level statutory bodies adopted (a 24% adoption rate). Hence, further investigation is required to examine the factors inhibiting the MPSAS adoption level among state-level statutory bodies.

The second literature gap involves the factors inhibiting MPSAS adoption among statutory bodies, in which several significant factors were identified, such as complexity, technical, political, and cultural factors. Accordingly, the aforementioned legal factors require further research as the public sector in a specific country is contingent on local laws and legal pronouncements. As such, governmental accrual accounting implementation in various countries occurs at different levels and paces, which suggests that contextual factors, including laws and legislation, significantly influence the implementation level. Generally, federal-level public organisations are required to abide by the Statutory Bodies (Accounts and Annual Reports) Act 1980. Nevertheless, a Malaysian government circular issued in 2016 exempted certain federal-level statutory bodies with financial reporting under the legal provisions of Bank Negara Malaysia, Securities Commission, or Companies Commission Malaysia.¹ Meanwhile, state-level statutory bodies under the ambit of state enactments and government directives could exclude MPSAS adoption. As the public sector is highly subject to the specific guidelines and directives issued by the various governmental levels, MPSAS implementation levels in different statutory bodies would be significantly influenced. Resultantly, the present study advocates further examination of various contexts in statutory bodies and respective legal requirements after analysing the experiences of

¹ KK/BSBB (S) 10/16/03.JLD.9 (SK.1) (9) dated 9 December 2016.

Malaysian statutory bodies. Further exploration is also required on the relevant issues experienced by Malaysian statutory bodies in adopting MPSASs.

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