

Change Towards Accrual Accounting: Perception of Top Management in the Malaysian Federal Government ¹

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Abstract

Accrual accounting is believed to have power in enhancing financial accountability and providing better asset-liability management. Most developed countries that have successfully adopted accrual accounting exhibit that the change process has to be properly managed to ensure successful implementation of the new accounting system. One of the most critical factors for successful transitions towards accrual accounting is the commitment to change among the public sector accountants. This paper presents findings from a study on the perception of top management in ministries of Malaysian Government on its effort towards transforming governmental accounting system to full accrual in 2015. Interview surveys were conducted with the targeted respondents. Among the findings is evidence of strong support from the top management and organisational leadership. However, level of readiness and commitment across ministries varies. Key recommendations from the study includes active promotion of change programme to policy makers and senior officials, detail action plan for ministries, risk management as well as gap analysis on human capital and IT needs.

Keywords: public sector transformation, cash to accrual accounting, change management, organisational commitments

Introduction

The New Economic Model (NEM) for Malaysia which was first introduced in 2010 has identified public sector transformation as one of the eight strategic reform initiatives (SRIs). Implementation of accrual accounting become one of the policy measures for public sector transformation to address the limitations the current cash-based accounting system in which assets and liabilities are not recorded in the financial reports. Unreported assets and liabilities raised concerns over risks associated with lack of attention to government's assets and liabilities management. Thus the implementation of accrual accounting is pivotal to facilitate

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asset-liability management in public sector. The government of Malaysia is determined to fully adopt accrual accounting in 2015, and the Accountant General's Department (AGD) has been mandated to spearhead the change agenda. This paper presents findings of a research on the perception of top management in ministries in Malaysian Government towards implementation of accrual accounting.

As many of the government's assets or liabilities are long term in nature and of very significant amount, good asset-liability management is paramount for public finance sustainability. Accrual-based reporting is argued to reflect full cost service provision and enhance performance measurement and accountability (Saleh and Pendlebury, 2006). However, the full benefits of accrual-based reporting can be realised only when the information is fully utilised by users (Abu Hasan, 2012). The change process towards accrual accounting in public sector is undoubtedly costly and challenging. Experiences of other countries that have fully applied accrual accounting include Australia, New Zealand and United Kingdom indicates variation in the time period taken to full adoption. The period differs as each country has to manage varying issues including required changes in the rules and legislation as well as acceptance of the policy makers and implementers. For instance, the United Kingdom took more than 10 years to fully adopt accrual accounting as compared to Australia and New Zealand, which took relatively shorter time for full adoption (Christensen, 2002; Champoux, 2006; Wynne, 2004).

Factors Influencing the Success of Accrual Accounting Implementation

As in many other change programmes, the transition will be hampered by resistance from accounting staff, difficulties in collecting data, unavailable records, variation in assets' and liabilities valuation and treatment, as well as complexity of the public sector organisations in general (Saleh and Pendlebury, 2006; Harun et al, 2012). The transition process requires significant financial commitment, including the cost of training and employing people with the right qualifications (Khan and Mayes, 2009). In the UK, accrual accounting has been implemented successfully at various levels of their government organizations with huge financial investment and efforts (Abu Hasan et al., 2013). Other factors that contributed towards the success are proper management, guidance, frequent and consistent communication and support from the top (Abu Hasan, 2013). Other countries that have started the adoption process includes South Africa, India and Jamaica, while Argentina, Albania and Pakistan have expressed intention to adopt accrual accounting but are still taking the 'wait and see' approach.

As accrual accounting represents change in an organisation's system, organisational and individual factors influencing change need to be considered to ensure successful implementation of the change programme. Change is recognised as a difficult process for most organisations either private or public, which is hindered by lack of top management support, employee resistance, poor communication, lack of readiness and lack of expertise (Armenakis and Harris, 2002). As a result, many change programs are either abandoned halfway through or fail to achieve the intended objectives. It has been argued that organisational and behavioural

factors such as structure of the organisation, systems adopted, leadership, effectiveness of change message and information flow, commitment to change and attitude towards change are pertinent in ensuring the success of change.

The importance of structural stability for organisations commissioning change has been strongly emphasized in the literature. It has been argued that proper structure must be in place for organisations to have a successful change (Schwarz and Shulman, 2007). A smooth change in structural aspects can facilitate and persuade people to embrace the change (Edmonds, 2011). Thus, in order to have a successful change program, organisations need to address the limitations in structural change (Hannan and Freeman, 1977). Another factor that warrants attention, in the context of transition towards accrual accounting, is the commitment of all levels of employees in the ministries. Specifically, the public sector accountants who will be directly affected by the change should be informed and convinced accordingly to ensure successful implementation of accrual accounting. Top management are the focal person who could make or break the initiative. Therefore obtaining their perception is important to determine their current take and support on the agenda, as well as to forward suggestions to AGD on the next course of action.

Change management literature has emphasised leadership as critical in the process of innovations or change. Scott and Bruce (1994) argue that high quality relationship between supervisor and subordinate, which allows greater autonomy and decision latitude to subordinates; is related to greater acceptance to change. In addition, employees' acceptance and commitment towards the changes is pivotal in ensuring their success. Commitment to change is described as "the glue that provides the vital bond between people and change goals" Conner (1992, p. 147). Change initiatives often fail to achieve the targeted goals due to lack of employee commitment and poor communication between the various departments affected by the change program (Conner and Patterson, 1982).

In order to generate support and commitment, there should be effective communication from the top management about the change process to all employees. Top management should ensure employees are well-informed about the change initiatives. It is difficult to gain support from employees if they do not know what specific changes are going to take place, how the changes are going to affect them and how they will benefit from the change process. Through effective flow of information, top management can inform employees about the change initiatives. Employees' opinion or belief will be affected by the effectiveness of the change messages, which will be part of the process of deciding whether to support or resist the change. In essence, effective change message forms the backbone for successful change implementation (Aremnakis *et al.*, 2007).

Change messages are usually transmitted between the various levels of organisations by the various change agents (top leaders, supervisors) as well as other individuals such as peers of change recipients. Furthermore research has shown that improved communication leads to employee job satisfaction and commitment which later result in benefits to organisations (Hargie & Tourish, 1996). In addition, attitude towards change may also influence success of

a change towards accrual accounting. Attitude towards change generally consist of a person's cognitions about change, affective reactions to change, and behavioural tendency towards change (Dunham *et al.*, 1989).

Critical factors for success including infrastructure support, human capital as well as organisational and behavioural factors influencing change demand careful assessment from organisational leaders. Fernandez and Rainey (2006) forward eight important factors that warrant attention and consideration at various point of time during the change process which are: i) ensuring there's a need; ii) provide a plan for the change; iii) build internal support for change and overcome resistance; iv) ensure top management support and commitment; v) build external support; vi) provide resources; vii) institutionalize change; viii) pursue comprehensive change.

Many public sector research have highlighted the critical role played by public managers in bringing about organisational change (e.g. Abramson and Lawrence, 2001; Bingham and Wise, 1996; Borins, 2000; Doig and Hargrove, 1990; Hennessey, 1998). Given the critical role of leaders in steering direction towards accrual accounting, it is pertinent to obtain awareness and perceptions of policy makers and implementers (top management) regarding organisational readiness to adopt accrual accounting. The top management must realise the importance of the development of accounting information system and adequate skilled personnel involved in implementing accrual accounting.

Thus, there is a need to assess top management perception and their support on implementations of the accrual accounting before the Malaysian government implements the reform initiative in all departments at the federal level. As indicated earlier, the change towards accrual accounting involves significant cost to the government. The people involved should not only accept reform but must have the technical ability to understand, implement and maintain the reform (Hepworth, 2003).

Based on the above arguments, this study is conducted with the following objectives: 1- to assess levels of awareness and commitment among the top management; and 2- to assess the levels of organisational readiness in embedding the change towards accrual accounting. Following this introduction, the next sections are on research methodology and then findings from interviews. This paper ends with conclusion and recommendations.

Research Methodology

This study utilised interview survey with top management at several ministries. Interviews were conducted with the top management to seek their perception in an in-depth manner. Respondents for the semi-structured interviews consisted of policy makers and top management of 8 selected ministries or agencies. The interview sessions were conducted either on a one-to-one basis or focus groups. Selection of the ministries for interviews is

based on size as these ministries will be significantly affected by the change towards accrual accounting. Table 1 shows the number of respondents by ministries.

Table - 1: Respondents of Interviews

Ministry/Agencies	No. of Respondents
1. Ministry of Culture, Arts and Information	3
2. Ministry of Works	1
3. Ministry of Higher Education	4
4. Ministry of Health	4
5. Prime Minister's Department	3
6. Pasukan Pembangunan Perakaunan Akruan (PPPA)	1
7. Institut Perakaunan Negara (IPN)	8
Total	24

Open ended interview questions were used during the interview. An interview guide was prepared so that the interview session can be timed accordingly and are standardised. The interview guide also helps to ensure that all necessary² information is captured throughout the session. Respondents were given the guide a few days before the interview session to assist them in providing the information relevant to their ministries. The interview sessions conducted took on average of one hour in each session. The data collection period of interviewing took about 3 months given the busy schedule of targeted respondents and yielded in difficulties to fetch an appointment with them. As mentioned in the earlier paragraphs, several of the sessions were conducted in a focus group manner where the top management brought along his (her) senior officers in the discussion. Although the interviews were done on five ministries only, findings are quite consistent throughout. Section that follows presents findings of the interviews.

Findings and Discussion

Interviews were held to obtain views from the top management on 1- their levels of awareness and commitment; and 2- the levels of organisational readiness in embedding the change towards accrual accounting. Thus the discussion of findings will be organised based on these two objectives.

² Interview guide can be obtained from the corresponding author.

Awareness and Commitment

The main issue when implementing change is to engage people in embracing the change. To achieve that, change has to be actively promoted especially to the policy makers and senior officials. Assigning a change agent and change sponsor is necessary and they have to play their role effectively. Respondents generally recognize that they have the change agent assigned in their ministry which is their accounting department. However, several respondents highlighted the need for a strategic plan to be laid out:

Account's department is leading the change, but strategic plan is yet to be determined.

The interviews revealed varying levels of awareness and commitment among the various ministries. Although few respondents are proactively promoting change towards accrual accounting in their ministries, the AGD is still expected to lead the effort, as highlighted by one interviewee:

I will deliver my responsibility with commitment from all departments, divisions and help from accounts, finance and Accountants General Department. We place great reliance on the AGD to develop the new system.

Several ministries have indicated that their employees are ready and just wait for AGD announcement of what to change. The following is the comment related to this:

At the moment our Ministry have not implemented any changes, however, we are ready for change in accounting basis.

However, several ministries seem to still expect further directions and guidance from the AGD. As one respondent pointed out:

After we received AGD plan later, we will develop our own plan based on our environment and aligned to the AGD plan.

The AGD, through PPPA has organized several trainings and briefing sessions to various level of accounting staff to promote awareness and instils the cultural change. Respondents recognized the awareness of their staff and their optimism from support they received during awareness courses.

Acceptance level is very good and encouraging. This can be seen from the interaction of participants during briefing session.

Several respondents are optimist that the accrual accounting can be adopted in 2015 should everyone delivers their responsibility:

By God's will, if everyone plays their role we will be able to adopt accrual accounting in 2015.

Besides that the AGD also encourages the ministries to organize the awareness courses as well as technical courses needed. Some courses were done either with IPN or professional accounting body. Many respondents said that they have identified specific training needs for their staff and start sending the staff for the training.

Another key to successful organization change effort is effective communication. Therefore, undoubtedly, for a huge effort like changing the accounting systems for government of a country, effective communication between ministries, within the ministries, within one location and at various geographical locations are vital. Generally, the respondents agree that awareness of the effort is high among their accounting staff:

Awareness courses were only given to the accounting staff.

Concerted drive to disseminate information about the change agenda is successful where everyone knows that government is moving towards new accounting system and that they have to change the way they perform their work and there will be a new accounting system. Various channels have been utilized to spread the agenda:

Information on accrual accounting is channelled directly through training as well as bulletin boards/discussions/forum/ specific blogs.

With respect to change agent, the account department in all ministries has been identified as the change drivers as expected by the AG. The Chief Accountants seems to assume the responsibility quiet well and recognize that AGD channelled information through the department:

AGD channelled all information through accounts department. Accounts department is our change agent.

Although the accounts departments have been the change agent as expected by the AGD, the non-accounting departments, i.e. finance department expressed their views that the AGD should have more direct communication with them.

There should be direct communication between AGD and head of both accounting and non-accounting departments.

A few Chief Accountants responded that ICT have proved to be very useful medium of communication which they will continue utilize emails to spread the change initiative and requirements.

We plan to continuously share information through email.

Organisational Readiness

Sufficient and efficient infrastructure is also a critical factor in successfully embracing change towards accrual accounting. Therefore, respondents were asked on the infrastructure readiness at their ministry. Generally they rely on the accounting department to analyse, manage and solve the infrastructure aspects:

Our account's department is managing infrastructure aspect.

The respondents were also asked to share their views on the new accounting system's software that they will be using for accrual accounting which is the 1GFMAS. Mixed responses have been received and many have mainly expressed their concern over the ability of the new system to support many users and organizations:

We have doubt on the ability of the new accounting system to handle users and information, what if it fails like HRMIS.

This concern arises because of their previous experience with human resources management information system (HRMIS) which have not been resolved until present days. And the respondents are also expecting AGD to support them with the new accounting systems:

We need support from AGD and we have raised our concern over the centralized system. At present we still maintain stand-alone system.

However, several respondents and the PPPA responded that concern over ability of the system to support huge volume of accounting transactions and many users is not a big issue as only accounting department from every ministry will use the system. This is unlike the HRMIS where many people need to access the system. Despite the concern, many ministries have already done stock taking and prepare themselves for the new accounting system. One of the interviewees shared this view:

I was told that infrastructure at our ministry will not change much, we will be using current computing facilities. However, I was informed that there will be cost in acquiring license to the accounting system.

While other ministry has also budgeted for the acquisition and installation of the new system, others are still waiting for relevant policies to be issued by the AGD:

Depends on IT policy by AGD, our Ministry is ready to incur the acquisition and maintenance costs if necessary.

Nevertheless, there are concerns that 2015 is too soon to witness full utilization of the new accounting system. This view is expressed by one of the respondents:

2015 is not viable with current progress; staffs are in need of technical training, huge challenge in recording of assets and uncertainty of the effect on recording of payment.

In general, majority of the respondents assume and take the attitude of 'they will try their best' to have their organizations ready for accrual accounting by 2015. However, they also expressed reservation that 'definitely accounting system will have hiccups even in 2015 but at least they are there'.

Respondents were also asked on their accountants' readiness in terms of knowledge and skills. This is because besides instilling awareness through briefing sessions and conferences, accounting staffs have to acquire certain level of knowledge to perform their job. Many respondents are very receptive towards the activities conducted by the AGD in line with the transition to accrual accounting, as one interviewee said:

Our officers have attended awareness sessions; we have no objection to move towards betterment.

Although awareness is high, the respondents agree that more training is necessary. Furthermore, they are particularly aware of serious issues faced by local agencies where accounting staff are small in number:

Local agencies at state and district level have problems in terms of staff numbers and qualification.

Agencies under our ministry may have problems with the implementation.

In addressing this issue, the AGD, the PPPA, the IPN have been actively organizing specific courses on accounting to fulfil the needs of accounting staff:

AGD as front-liner has successfully organized awareness program, training of trainers (TOT) programs, joint venture programs with IPN, professional bodies and local university as well as appointed service provider to train and monitor officers. Our ministry will also conduct courses for our officers.

Many respondents express concern over staff skills and experience especially with the AGD practice of staff rotation which they think is too frequent:

We have issues with frequent movement of staff, although lack of staff is not critical success factor.

Despite several ministries have taken effort to send their staff for training and to also provide in-house training, other ministries still in the stage of waiting for instructions for AGD:

Trainer from account's department will provide training after we received instructions from AGD. Training for user of the accounting system will be given after the system is in place.

Conclusion and Recommendations

Interviews show that level of awareness is high as evidenced by the frequent briefings and seminars conducted by the AGD as well as by the ministries themselves to various levels of employees. However, level of readiness and commitment across ministries vary as evidenced by the variation in preparation and plan for the transition. Some ministries have outlined their steps towards accrual accounting implementation while others are still waiting for AGD's further instructions. AGD as the change agent has established a team called *Pasukan Pembangunan Perakaunan Akruan* (PPPA – Accrual Accounting Development Team). Among the actions taken by the PPPA to manage and spur the change process are the appointment of Chief Accounting Officer as Change Ambassador in each ministry, the Training of Trainers (TOT) programs and the accounts department in each ministry to act as change agent.

Although migration path has been determined, strategic plan is not available as yet. Many ministries are waiting for the AGD to provide instructions of the next steps despite the AGD's expectation that each ministry should proactively plan for their next course of actions. Another evidence of variation in readiness among ministries is the competency gap analysis which only two out of seven organizations interviewed indicate that they have already done the competency gap analysis for accounting staffs needed to support the change. The implementation of accrual accounting will require highly qualified accountants, thus, there is a need for new recruitment strategy and planning. Trainings that have been organized vary across ministries. Some ministries have a proper plan for their annual training while others are waiting for the AGD's further instructions. PPPA has conducted TOT programs so that there will be a trainer in each accounting department.

There is evidence of high information flow, infrastructure and budget support towards accrual accounting, organisation infrastructure readiness in terms of office space, computing facilities and accounting software. Communication gap between accounts department and finance department is apparent in certain ministries based on responses received in several of the focus group discussions. There are requests from several finance departments to have them involved in meetings and workshops on the change effort.

In preparation for the accounting system to support accrual accounting, vendor has been appointed to design the new accounting system (1GFMAS). Interviews show that there are concerned over the ability of 1GFMAS to support many users as experienced with HRMIS. However, PPPA assured that 1GFMAS will have restricted access unlike HRMIS. In addition, there is a need for adequate knowledge transfer program to ensure sustainability of the work performed by consultant.

Government of Malaysia decided to implement accrual accounting concurrently for all ministries under federal government (big bang approach). This attempt requires risk management program to avoid abandonment of the initiative. Respondents express their concern over the possibility of simultaneous implementation for all ministries. None of other countries that have successfully implemented accrual accounting adopts such an approach. The AGD should engage the audit office, members of parliament and politicians in charting the change program. The media has to be given sufficient information to avoid communication gap. Efforts by AGD, specifically the PPPA and IPN to organize briefing sessions, seminars, workshops and conferences are commendable.

Several key recommendations can be made from the research: (i) change has to be actively promoted especially to the policy makers and senior officials – change agent and sponsor; (ii) PPPA should specifically describe detail action plan (programs, timeline and responsibility) for each ministry in supporting the change towards accrual accounting and closely monitor the training programs at ministry level; (iii) a risk management program is necessary; (iv) clear communication with the audit office and politicians are necessary, as well as media to avoid communication gap; (v) training, recruitment strategy and analysis of competency gaps is vital to ensure adequate number of professionally qualified accountants are available, and ministries can consider engaging professional accountants; (vi) sustainability of work performed by the engaged consultants has to be ensured through adequate knowledge transfer.

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