

# Implementation Barriers to Management Accounting Practices in the Malaysian Public Sector

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## Abstract

**Purpose:** This study seeks to examine implementation barriers to management accounting reporting in the Malaysian public sector.

**Design/ Methodology/ Approach:** A qualitative approach was utilized, wherein interviews were conducted with both accountants and non-accountants in two ministries and the Accountant General's Department of Malaysia (AGD). In addition, documentary reviews related to the management accounting reporting framework and guidelines were analysed.

**Findings:** Implementation barriers related to the current management accounting reporting and analysis were categorised into three primary domains, namely cognitive, technical, and organisational. Cognitive barriers refer to the mindset of accountants and non-accountants about the instrumentality of management accounting reports and the underlying budgetary philosophy of the Malaysian public sector. The organisational barriers are related to coordination among different parties involved due to the fragmentation in managing processes and rules and regulations of management accounting reporting. Meanwhile, technical barriers are defined as insufficient integrated system support in management accounting software, hardware, components, and elements.

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**Originality/ Value:** The present study contributed significant insights into the implementation barriers to the management accounting reporting framework by the Malaysian central government.

**Keywords:** Management accounting reporting, public sector accounting, barriers to change, management accounting implementation, Malaysia.

## 1.0 Introduction

Management accounting has been crucial in the modernization of the public sector, especially in the face of major problems and uncertainties faced by public sector organisations (Lapsley, 2000). Management accounting offers insights and analytical findings crucial for effective resource allocation, strategic planning, policy evaluation, risk management, and opportunities to ensure continual service delivery, accountability, and public value (Cohen, 2022). Therefore, relevant, reliable, and timely integrated management accounting reports are crucial (Morales et al., 2014; Grossi & Agento, 2022). Likierman (1994) analysed the management accounting impact on the United Kingdom (UK) central government and highlighted its central role in enabling effective governmental reformations. Similarly, the Malaysian government recognises the importance of management accounting reports for internal decision-makers through the AGD to enable more effective public sector financial management (Treasury Circular 1.3, 2021). Management accounting sections are established in accounting units in the ministries and are responsible for producing management accounting reports to respective management. Nevertheless, implementing a large-scale management change resulted in numerous challenges and issues. Rozaidy and Siti-Nabiha (2023) investigated accrual accounting implementation at Malaysian federal ministries and revealed significant barriers and prolonged issues encountered by the AGD during the accounting change at the central level, including implementation delays, inadequate understanding among ministerial members, issues in developing accounting frameworks and standards, and technical issues related to developing and integrating alternative accounting information systems.

The AGD currently undertakes an institutional transformation similar to the previous accrual accounting implementation, with hindrances and issues predicted to occur during the implementation process of alternative accounting policies and techniques. Nonetheless, the management accounting framework and standard setting do not fully correspond to financial accounting reporting standards, tools, and techniques. Thus, the implementation issues that might arise while implementing management accounting reports might differ in both contextual and practical aspects compared to previous accrual accounting implementation.

The implementation of management accounting analysis and reports requires addressing various issues, such as the skills and competencies needed to prepare relevant reports, as well as the level of acceptance of these reports among users. Empirical research demonstrated that introducing alternative accounting techniques commonly practised in private settings into the public sector frequently encounters challenges and barriers to effective implementation and achieving the intended outcomes (Harun et al., 2012; Siti-Nabiha & George, 2021). Most management accounting tools and techniques introduced in the Malaysian public sector, such as outcome-based budgeting and risk management, are not part of the traditional public

accounting domain. Furthermore, research on management accounting implementation in governmental settings remains in the infancy stage.

The contextual setting of management accounting implementation provides a significant research venue for understanding how a central governmental agency (AGD) could internalise the latest accounting techniques commonly practised in private organisations into a highly centralised governmental environment, namely federal ministries. Management accounting implementation is limited in highly embedded institutions or agencies in the public sector (Battilana, Leca & Boxenbaum, 2009; Thornton, Ocasio, & Lounsbury, 2012; Rozaidy & Siti-Nabiha, 2023). Examining the barriers at the federal level provides an opportunity to enrich the comprehension of implementing management accounting commonly practised in highly institutionalised environments. Accordingly, the current study seeks to answer the research question, namely the barriers to implementing management accounting reporting and analysis, by employing a qualitative approach. Section 2 provides a literature review of the barriers and challenges of management accounting implementation in the public sector. Section 3 describes the method utilised in this study. Section 4 presents the findings and discussion while Section 5 provides a brief conclusion.

## **2.0 Literature Review**

### **2.1 Management Accounting Practices in Malaysian Public Sector Organisations**

Management accounting has been utilised to support and maintain various reformations implemented in the public sector by the Malaysian government. The focus of management accounting practices is related to budgeting and budgetary control, performance measurement and benchmarking, costing practices, and financial and risk analysis. Budgeting and performance measurement are well-established areas, on which public sector organisations highly rely for planning and resource allocation while performance measurement tools are employed to track progress towards achieving budgetary and strategic goals (Rozaidy & Siti-Nabiha, 2023). While costing practices are not as prevalent as budgeting, certain Malaysian public sector organisations adopt practices, such as activity-based costing (ABC) to thoroughly understand the cost drivers of provided services. The ABC could assist in allocating resources more efficiently and identify pertinent areas for cost savings (Isa et al., 2011). Meanwhile, financial and risk analysis is a growing area. Public sector organisations recognise the importance of financial analysis for strategic decision-making and risk management (Said et al, 2020). Organisational accountability could also be improved by practising risk management driven by performance measurement usage to accomplish relevant objectives (Abu Bakar et al., 2019).

Insufficient risk management awareness, knowledge, and skills are observed among public managers (Wan Muhammad Ali & Beh, 2019). Empirical studies also revealed several issues related to applying management accounting tools and techniques, especially in emerging economies (Helden & Uddin, 2016). The tools and techniques created for the private sector might not be suitable for the public sector as the objectives and plans of public sector organisations depend more on long-term social outcomes, which are more difficult to quantify and require a longer time to attain. Additionally, connecting outcome-based accomplishments to the employed inputs is challenging due to the ambiguity in the responsibility level of officers or ministries. The adoption of management accounting practices also varies across public

sector organisations. Other barriers include adequate compliance and financial accountability and the higher usage level of advanced cost analysis.

## 2.2 Implementation Barriers

Significant empirical research was conducted on barriers to innovation in the public sector, namely innovative ideas and processes created and developed for the adopted entities (Walker et al., 2011; Cinar et al., 2019). Cinar et al. (2018) delineated that organisational barriers comprise (i) ineffective administration of process activities, (ii) resistance or lack of support, (iii) lack of resources, (iv) inflexible rigid organisational structure or culture, and (v) insufficient skills and expertise. The barriers to implementing accounting innovation were also categorised in Luder's (1992) framework, which concentrated on the elements of central government accounting reformations in the budgeting and accounting systems of several industrialised countries (Luder, 2002). Luder's (1992, 1994) model specifies the interplay of various political and administrative contextual factors that significantly influence the outcomes of accounting reformation initiatives. The factors encompass the legal system, accounting personnel's qualifications, and the jurisdiction scale (Luder 1992, 1994), which could serve as either barriers or enablers of effective accounting reformations.

Luder's foundational framework was refined based on the insights from existing empirical research before being rebranded as the financial management reform process model (Luder 2002). Accordingly, the barriers and enablers of effective accounting reforms would be contingent on the following factors (Luder 2002, pp. 9-10):

- i. The legal system encompasses legal and civil law, which are interrelated to the governance structure. The legal system also includes the electoral system and the flexibility of the budget law, which significantly influences the accounting reformation.
- ii. The state structure pertains to the nature of the state, such as whether the state is organised as a federal or unitary system and the division of power among the distinct bodies and executive branches.
- iii. The administrative structure refers to the division of authority among the various administrative entities and the organisational features of the administration.
- iv. The proficiency and expertise of public officers are generally and specifically the accounting personnel, which significantly impact the duration and cost of implementing accounting innovation.
- v. National culture encompasses the broader social, political, and administrative elements, which also refers to attitudes towards risk, power dynamics, and cultural individualistic versus collectivist orientations.

Luder (2002) argued that implementation barriers concern the accounting reformation at the national level rather than at the institutional, departmental, or ministerial level. The challenges of implementing accounting reformations or innovation could also be scrutinised through the works of Gond et al. (2012), which were established based on Hoffman and Bazerman (2007). Gond et al. (2012) and Moon et al. (2011) examined the barriers to integrating sustainability

strategy in the management control system, with the developed concepts pertinent to understanding the barriers to implementing management accounting reporting and analysis. Gond et al. (2012) and Moon et al. (2011) categorised the barriers as follows:

- i. Organisational, which refers to how processes are organised and structured in the respective organisation.
- ii. Cognitive, which is the mindset of involved individuals, namely accountants and non-accountants.
- iii. Technical, which refers to the tools, systems, and expertise.

Moon et al. (2011) demonstrated several integration barriers. Particularly, the cognitive challenge arises from cost and risk uncertainties associated with sustainability and performance. The organisational challenges pertain to higher coordination among various units and functions and senior management commitment. Meanwhile, the technical challenges relate to issues in formulating appropriate indicators that could be used across diverse organisational functions and operations and issues related to information technology (IT).

### 3.0 Methodology

A qualitative approach was utilised in this study, which involved interviews conducted with 13 accountants and non-accountants in two Malaysian ministries and the AGD in June 2023. The interviews included individuals involved in Management Accounting (MA) implementation in the respective ministries and potential users of information derived from the MA system. The issues discussed during the interviews related to MA adoption, which were guided by Moon et al. (2011) and Gond et al.'s (2012) categorisation of implementation barriers. Moreover, the focus of the interviews was on the information received and required by the users of MA reports. The interviews were recorded and transcribed. Documentary reviews related to the MA reporting framework and guidelines were also analysed. The list of documents reviewed is depicted in Table 1. Subsequently, the transcribed interviews and documentary data were analysed thematically. Key similarities and differences between each interview and documentary review were determined to obtain a more holistic perspective of the phenomena and for triangulation purposes to ensure the reliability and validity of the findings.

**Table 1: The List of Documentary Reviews**

No.	Document Name
1.	PS 1.3 Malaysia Treasury Circular Management Accounting Implementation <i>PS 1.3 Pekeliling Perbendaharaan Malaysia Pelaksanaan Perakaunan Pengurusan</i>
2.	Guidelines of Accountant General Malaysia No. 2/ 2021 - Management Accounting Implementation: Financial Statement Analysis and Risk Assessment <i>Garis Panduan Akauntan Negara Malaysia Bil. 2/ 2021 - Pelaksanaan Perakaunan Pengurusan: Analisis Penyata Kewangan dan Penilaian Risiko</i>
3.	Guidelines of Accountant General Malaysia No. 5/ 2021 - Management Accounting Implementation: Costing <i>Garis Panduan Akauntan Negara Malaysia Bil. 5/ 2021 - Pelaksanaan Perakaunan Pengurusan: Pengekosan</i>
4.	PS 5.1 Financial Management and Accounts Committee Implementation Guidelines (Amendment 2021) <i>PS 5.1 Garis Panduan Pelaksanaan Jawatankuasa Pengurusan Kewangan dan Akaun (Pindaan 2021)</i>

**Table 1: The List of Documentary Reviews (continued)**

No.	Document Name
5.	Terms of Reference for Management Accounting Working Committee Members (Appendix A) <i>Terma Rujukan Ahli Jawatankuasa Kerja Perakaunan Pengurusan (Lampiran A)</i>
6.	Terms of Reference for Management Accounting Steering Committee (Appendix 1) <i>Terma Rujukan Jawatankuasa PEMANDU Perakaunan Pengurusan (Lampiran 1)</i>
7.	PB 1.3 Guidelines for Preparation of Federal Expenditure Budget Proposal (Year 2024) <i>PB 1.3 Garis Panduan Penyediaan Cadangan Anggaran Perbelanjaan Persekutuan (Tahun 2024)</i>
8.	Treasury Instructions (Amendment 2023) <i>Arahan Perbendaharaan (Pindaan 2023)</i>
9.	Public Sector Management Accounting Blueprint 2018 <i>Blueprint Perakaunan Pengurusan Sektor Awam 2018</i>
10.	Annual Reports of Ministries <i>Laporan Tahunan Kementerian</i>

## 4.0 Findings and Discussion

The issues and challenges in implementing MA reporting and analysis were analyzed based on three critical areas as referred to in the works of Gond et al. (2012) and Hoffman and Bazerman (2007).

### 4.1 The Strategic Management Accounting and Reporting (SMART) Implementation

The MA emphasis is becoming increasingly crucial following the implementation of accrual accounting in the Malaysian public sector and outcome-based budgeting (OBB) requirements. The AGD developed the public sector MA blueprint in 2018, followed by the issuance of Treasury Circular PS 1.3 in February 2021 listing the four MA components to be analysed and reported, namely financial statement analysis and risk assessment, costing, performance measurement, and resource analysis. The Management Accounting Section (SPP) has also been established in each Ministry through the Accrual Accounting initiative. The MA section prepares the SMART report bi-annually. The detailed guidelines for the MA implementation on financial statement analysis and risk assessment and costing were issued on August 18, 2021, and December 22, 2021, respectively. Contrarily, the detailed guidelines for resource analysis and performance measurement were not publicly issued, which suggested that SMART implementation was in the early stages. Nevertheless, SMART reports on the financial statement and risk assessment and costing were prepared and submitted to the AGD by the two ministries involved in this study. The report was presented during the accrual accounting committee meeting chaired by the top executive of the ministries.

### 4.2 The Cognitive Barriers to Implementation

One significant impact of SMART reporting was the changing and expanded role of ministerial accountants in providing information and analysis for decision-making. The findings revealed that most public officers perceived that accountants would continue to play the traditional role of preparers of historical reports. Accountants were regarded to be primarily involved in the back-end process or provision of historical data through financial reporting. In addition, the MA perspective among accountants was a significant barrier to the effective implementation of

SMART reporting. The accountants explicated the disadvantage of posting in the SPP compared to other accounting-based technical departments. Financial accounting and reporting are highly procedural and are governed by accounting standards. The procedures are structured differently than MA, which requires judgment and a thorough understanding of the organisation. Hence, accountants are required to be creative in analysing various financial and non-financial information during MA analysis and reporting. Furthermore, the implementation of the MA framework and SMART reporting was at an early stage, in which SMART reporting guidelines were not completely developed. Accounting staff posted in the SPP would experience significant challenges in adopting alternative methods of analysing and preparing MA reports. Such endeavours would negatively impact accounting staff's work motivation owing to the higher difficulty in coping with the different working environment compared to colleagues in other departments working in a more familiar and guided environment.

The MA does not contain accounting standards to guide the analysis compared to financial accounting. The nature of the organisations would also influence the analysis based on accountants' judgement. More challenges would be encountered by the accountants to formulate the report as financial accounting activities are perceived to be more effortless and less complicated than MA. The situation would be aggravated with the rotation-based staff placement method employed by the AGD, wherein the accountants would be rotated around the ministries when being promoted to higher grades. Resultantly, the accounting department could not retain experienced accounting staff with SMART reporting requirements and negatively impact SMART reporting quality. Additionally, public sector accountants in Malaysia underwent significant institutional changes. The implementation of accrual accounting at the federal level required the accountants to completely reform the previous institutional setting from a cash accounting system to an accrual accounting system. The change highly pressurised the accountants to adapt and realign the existing working methods. The accountants were required to maintain cash-based operational procedures as the law was not formalised for accrual accounting. Simultaneously, the accountants were required to incorporate accrual accounting-based information into the system, which was compounded by incorporating an MA model and SMART reporting as part of the operational workload. The additional workload was not assisted with additional hiring or supporting staff. The daily operations at the MA department were conducted by only several officers, who must perform both SMART reporting and other operational tasks.

Another significant cognitive barrier was the inadequate awareness and understanding of the instrumentality of MA reports to relevant users due to the early stage of SMART implementation and the perception of MA reports. The barrier posited that the SMART understanding required further development, especially related to the concept of public sector management accounting and the benefits of SMART reporting in facilitating strategic decision-making. Notably, the most significant cognitive barrier emerged due to the budgetary control philosophy within the Malaysian public sector. One of the SMART reporting objectives is to enhance financial management efficiency, although the focus on efficiency is compromised due to the budgeting philosophy or practice in the Malaysian public sector. Particularly, the conventional public service mindset, which revolves around the national budgetary philosophy, limited the usage of SMART reporting. Spending effectiveness is not solely based on cost-efficiency initiatives but also on fulfilling annual budgetary commitments by federal ministries. The financial priority is to finish the allocated budget rather than conserving financial resources.

Failing to fulfil budgetary targets or the inability to expend the allocated budget results in penalties, such as budget cuts for the subsequent budgetary cycle, which leads to budgetary slack. Furthermore, a general perception exists that specific financial resources will be provided to ensure the continuation of service provisions, regardless of whether fulfilling the cost-efficiency target. The perception emanated from the underlying nature of the establishment as a public sector entity. Subtle resistance behaviours, including late report submissions, shallow report presentations, delays in data handouts, and unfriendly acceptance by top management, would be exhibited when the perception is embedded in the public sector, especially by public sector staff without an accounting background.

#### **4.3 Organisational Barriers to Implementation**

The complexity of the Malaysian governmental organisational structure is constantly a significant challenge, especially when introducing the latest policies or regulations in the governmental setting. The complexity of the governmental structure posed several issues for SMART model implementation. Specifically, a disorienting chain of communications was observed in the data-gathering process. The SMART reporting commences with the AGD at the central level by developing and distributing the SMART model guidelines to governmental agencies. The analysis is prepared by the accounting unit or department at the ministerial level. The accountants would experience significant challenges in collecting and gathering data, information, and reports from various departments, units, centres, and agencies under ministerial supervision. For example, the accountants are required to collect data from 135 hospitals, 11 specialist medical institutions, 1,057 clinics, 1,749 rural clinics, 86 maternity and children's hospitals, and 255 1Malaysia or community clinics under the Ministry of Health (MOH; MOH's Annual Report, 2021; page 3), which presents a significant challenge to ensure timely and accurate data collection.

The complex chain of data distribution from a low hierarchy of operations, such as clinics, to the district level creates a significant barrier. The data are required to be recompiled and reanalysed for a simpler version before being submitted for reporting and presentation at the central level. The data values and purposes might be lost in translation. Data reporting would also require accountants to obtain relevant information from various ministerial units or divisions as other parties outside the accounting section perform certain information processing or analysis. The MA accountants are both information preparers and users. The accountants provide information through the report to the top management and the AGD. The accountants must also conduct and incorporate the analysis into the report by obtaining the data and information from other ministerial units. For instance, the accountant is required to gain access to the various units, such as key performance indicators (KPI) report from the KPI unit and the budgetary information from the finance and strategic units, during resource and performance analyses. The process requires cohesive collaboration between different departments. Nevertheless, establishing a cohesive collaboration between various departments in delivering MA reports is highly challenging owing to the specific nature of each department. Furthermore, overlapping roles and responsibilities in the analysis exist.

The collected data are required to be analysed again by the accountants by thoroughly comprehending the ministerial nature and complexity. The CGMA/AICPA report (2017, pg. 8) elucidated that:

“As a profession, management accounting requires a thorough understanding of the business (including the business model) and its operating environment so that organisational risks and opportunities are known.”

Thus, preparing the report and determining the analysis requires a high understanding of the nature of involved ministries, complexities of the focus, and strategies and required data requirements for decision-making to pinpoint relevant issues, risks, and opportunities. Nonetheless, understanding is scarce in the current situation due to insufficient expertise of the accountants in preparing the report as adequate training and skills were not provided. The accountant possesses lower knowledge and understanding levels of costing analysis types required and beneficial to the management. The scarcity of comprehension and knowledge in preparing for cost analysis and the challenge in gathering information from each responsibility centre, i.e., *Pusat Tanggungjawab* (PTJ) for PTJ-based costing (PBC) and outcome-based costing (OBC) reporting led to inadequate cost information observed in SMART reports. The circumstance was exacerbated by the challenge of identifying measurable outcomes for ministerial programmes or activities, which limited the usefulness of SMART reports in decision-making.

#### **4.4 Technical Barriers to Implementation**

A technical barrier is a constraint or obstacle within an organisation or institution that hinders overall functioning, efficiency, or progress. The barrier could manifest in various manners, such as inadequate infrastructure, obsolete technology, poor communication systems, or inefficient workflows. The barrier also refers to the methods of employing relevant tools, which could impede the organisational ability to achieve goals, adapt to changes, and maintain a competitive edge in the market. Generally, the discrepancies in the facilities related to MA model implementation and SMART reporting can be categorised into two aspects, namely software and hardware. Software or systems refers to various applications ranging from operating systems and productivity software to specialised business or accounting solutions. Meanwhile, hardware refers to the physical components of a computer system and other electronic devices, which play a critical role in the functionality and performance of technology-driven organisations. The following are the issues expressed by the respondents, which are divided into specific levels with direct and indirect connections to SMART reporting at the two ministries in this study.

##### **4.4.1 Inadequate Software or System and Non-Integrated System**

The inadequacy of the existing system is a hurdle to effective SMART implementation. For instance, the costing analysis requires data from the MyCost system, which is a broad system. The accountant is required to calibrate the system and be creative in formulating the cost variables in the system owing to the lack of a specific standard operating procedures that caters to the complexity of the ministries. Preparing the reports becomes a time-consuming task, which negatively impacts timely report submissions. The situation is further compounded by different PTJs with respective systems tailored to specific requirements and contexts. Simultaneously, relevant information and data required by the SPP are only available at respective PTJs. The non-integrated system creates accessibility issues to relevant data and information from relevant PTJs, which is highly time-consuming as relevant data must be continually extracted and transferred from and between several fragmented systems. Various

systems also exist in the organisation when each PTJ possesses and employs the respective system, which may lead to system duplication and redundant produced data.

#### **4.4.2 The Applicability of the Rules and Guidelines**

The complexity of ministries requires pertinent judgement and analysis for preparing SMART reports. The non-standardised practice between ministries in the SMART reporting structure reduces the quality of expected SMART reporting outputs. Certain preparers explained that current SMART reporting outputs are superficial and unguided and preferred standardising SMART reporting guidelines. Meanwhile, the AGD provided a different perspective on reporting standardisation, in which SMART reporting guidelines should be broad and non-specific for flexibility. The accountants expressed that the AGD was required to develop a generic template or guideline during the early implementation phase due to the complexity of the Malaysian governmental structure. A generic template allows the preparers to realign collected data based on the specific ministerial context, which provides more freedom not to report all elements mandated by the SMART reporting guidelines. Not all elements are necessarily applicable in each report. While the costing guidelines provided by AGD are detailed and contain a specific template for specific reporting, such as PBC and OBC, users perceived the guidelines as highly general. The costing analysis should be tailored to the ministerial nature in terms of functions, operations, characteristics, and contexts. The preparers of SMART reports are required to be creative in determining corresponding outputs and be transparent with expected outcomes based on the nature and performance target of a specific ministry. The requirement becomes a challenge to the accountant's lack of experience in the technical components of the costing reports.

#### **5.0 Conclusion**

The challenges and uncertainties in the Malaysian public sector require MA information that enables highly informed decisions, which is addressed by introducing MA reporting in 2021. The current study highlighted several barriers hindering the effective implementation of MA reporting in the Malaysian public sector, namely the mindset of the accountants and non-accountants, the fragmentation in the organisational processes and structures preventing the integration between various units and divisions, and inadequate technical infrastructure and integrated system support. Resolving the barriers requires changing mindset through more enriching engagement with accountants within the ministries and between AGD and the ministries. The engagement could lead to a higher awareness of SMART reporting and relevant benefits and usefulness for more informed decision-making. The engagement should be undertaken concurrently with actions to foster coordination, reduce fragmentation in the ministerial units, streamline bureaucracy, and allocate adequate budgets to improve IT infrastructure. The Malaysian public sector should effectively resolve the challenges to enhance MA and enable the usage of provided information for highly informed decision-making.

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