Issues and Challenges in Implementing International Public Sector Accounting Standards (IPSAS)

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Abstract

Purpose: This paper aims to identify the prerequisites as well as the issues and challenges in implementing the accrual basis International Public Sector Accounting Standards (IPSAS).

Methodology/Approach: Using the archival approach, this paper presents a review of past studies and published information on the issues and challenges faced by various developing countries in adopting IPSAS.

Findings: The challenges faced by countries in adopting IPSAS can be classified into three categories: (1) Resources which include a lack of competent accounting and finance staff, and a lack of IT facilities and IT support; (2) Accounting and reporting issues related to difficulties in the recognition and measurement of assets, liabilities, revenue and expenses; and (3) Top management commitment in ensuring succesful change management programmes.

Research Limitations/Implications: This paper outlines the results of the preliminary phase, i.e., a review of previous studies, before a study to examine the issues and challenges in the adoption of accrual accounting and the Malaysian Public Sector Accounting Standards (MPSAS) in state governments in Malaysia is undertaken. Thus, the discussion in this paper is limited to the issues and challenges in adopting IPSAS.

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Practical Implications: This study shall provide guidelines for Malaysian state governments in promoting successful implementation of MPSAS.

Originality/Value: This paper provides the basis for the next phase of the study on state governments which includes questionnaire surveys and interviews.

Keywords: Accrual accounting, IPSAS, MPSAS, public sector, developing countries.

Introduction

In 2010, the Malaysian government introduced the New Economic Model (NEM) 2011-2020 with the objectives of producing “high skill human capital, efficient public services, reinvigorated private sector and equal opportunity for all Malaysian” (National Economic Advisory Council, 2010, p. iii). One of the strategic reform initiatives (SRIs) under the NEM aimed to strengthen the public sector (SRI 4) through several policy measures. Accrual accounting is one of the policy measures for the transformation with the focus on facilitating asset-liability management in the public sector. As many of the government’s assets and liabilities are long term in nature involving very significant amounts, good asset-liability management is important for public finance sustainability. A study conducted by Isa, Saleh and Abu Hasan (2013) on the move towards accrual accounting identified factors such as strong support from top management, availability of hardware, readiness of accounting systems, sufficient accounting skills as being among the key success factors. The study also documented the need for enhanced awareness among all the staff and for detailed action plans to be prepared for each organisation. Several initiatives have been undertaken to facilitate accrual accounting implementation in Malaysia since 2011. These included establishing a Government Accounting Standards Advisory Committee (GASAC) to look into existing policies, standards, laws and regulations; conducting a gap fit analysis to plan for effective process and technology; and training to build human resource capacity (IFAC, 2013).

Based on the outcome of the Strategic Reform Initiatives related to Public Finance, the government of Malaysia decided to adopt accrual accounting for the federal government in 2011, with full implementation targeted for the year 2015. State governments were expected to implement accrual accounting after the federal government had done so, with the initial target set for the year 2016. However, the full implementation including producing accrual based financial statements had been postponed several times, one of the reasons being the delay in tabling and getting Parliament approval on the amendments to the Federal Constitution and the Financial Procedure Act (1957). If the amendments to the relevant acts are passed by the Parliament in 2021, the federal government is expected to publish accrual based financial statements in 2022, with the state governments following suit in 2023.

Countries that move from cash to accrual accounting are expected to adopt accrual-based accounting standards such as IPSAS. There are three different ways in which IPSAS can be used: IPSAS with no modifications; IPSAS modified for the local context; and national standards with reference to IPSAS (IFAC and CIPFA, 2021). According to a report published by the Association of Chartered Certified Accountants (ACCA), "adoption of IPSAS has started to provide significant and common advantages across the public sector, yet important challenges remain in the roadmap to full adoption" (ACCA, 2017, p. 5). A study by the International Federation of Accountants (IFAC) and the Chartered Institute of Public Finance & Accountancy (CIPFA) showed that out of 165 jurisdictions, only 30% (49 jurisdictions) had published accrual-based financial reports, while 40% (67 jurisdictions) were in the process of transitioning to accrual-based accounting. However, 30% (49 jurisdictions) still maintained cash basis accounting. In fact, not all countries that adopt accrual accounting adopt IPSAS in total. Of the 49 governments that reported on accrual, only slightly over half of them, i.e., 57%, use IPSAS (IFAC and CIPFA, 2021).

In the case of Malaysia, the government has taken the approach of developing a national public accounting standard, the Malaysian Public Sector Accounting Standards (MPSAS), based on IPSAS. However, only minor changes were made to adapt IPSAS to align them with the national circumstances (IFAC, 2013). Two committees were responsible for the development and implementation of MPSAS – the Government Accounting Standards Advisory Committee (GASAC) and the Accrual Accounting Steering Committee (ACSC). GASAC has the responsibility to develop the standards while ACSC approves the standards for application in preparing government financial reports. Although efforts to implement accrual accounting with accrual-based standards are already underway, there are still issues and problems that need to be addressed. As stated by Ramli (2018), "The decision to adopt an accrual-basis accounting system is one journey ... the path toward proper implementation, however, is another endeavour altogether".

Given that there are several countries that have adopted IPSAS or adapted it, the Malaysian state governments can learn from their experience. Thus, this paper aims to provide an overview of the issues and challenges related to its adoption in other countries in order to provide the basis for the next phase in the study of accrual accounting and MPSAS implementation by the Malaysian state governments. The specific objectives of this paper are as follows:

1. To identify the prerequisites for IPSAS adoption, and
2. To identify the issues and challenges in implementing IPSAS.

As documented in many publications, the transition to accrual accounting entails a multitude of challenges, which have caused many countries to experience delays and failures. It is therefore very important for governments to carefully plan and strategise to ensure its successful implementation. Without strategic planning, it would precipitate a lot more investment in money and time, and it is likely to cause fatigue and risk being abandoned.

The next section provides an overview of prior studies on adoption of accrual accounting and accrual-based standards in Malaysia. This is followed by a description of the methodology and a section on discussion. This paper ends with a concluding remark and recommendation.

Throughout this paper, the term IPSAS refers to accrual basis IPSAS while cash basis IPSAS will be specifically mentioned as such.

Literature Review

This section focuses on prior studies on the adoption of accrual accounting and accrual-based standards by the Malaysian government. Previous studies in Malaysia tended to focus on the federal government's move towards accrual accounting. In general, it was found that the employees within the federal government were found to be ready for change. For example, Azmi and Mohamed (2014) conducted a case study in the Ministry of Education and concluded that the employees were ready to implement accrual accounting but pointed out that their qualifications and skills to implement the new system successfully were a major concern. Similarly, Atan and Yahya (2015) found a positive attitude towards change among the accounting personnel in the federal government. Ismail, Siraj and Baharim (2018) concluded that change valence or beliefs that the move would benefit the organisation, task knowledge and task availability significantly influence change commitment. This, of course, requires proper planning and effective communication.

There are several issues, challenges and factors influencing accrual accounting implementation. Mahadi, Noordin, Mail and Sariman (2014) suggested that Malaysia learn from New Zealand, Australia, and the United Kingdom in overcoming implementation barriers which include difficulties in the recognition and valuation of assets and liabilities, human competency, and high implementation costs. In addition to human resource competency, Yusuf and Jaafar (2018) and Ahmad (2016) included software and technology capability and suitability of accounting policies and standards and effective communication as prerequisites for successful implementation of accrual accounting.

Specific studies on accounting standards were undertaken by Ismail, Abdullah and Zainuddin (2013). They found difficulties in implementing IPSAS related to the recognition, measurement and disclosure of property, plant, and equipment. They recommended that the Accountant General's Department (AGD) provide intensive training to address the lack of staff competency before full implementation of accrual accounting. Basnan, Md. Salleh, Ahmad, Harun and Upawi (2015) investigated the challenges to recognise and measure heritage assets and also found that staff competency was an issue that needed to be addressed. Another study that investigated accounting practices conducted by Md Yatim and Norhashim (2016) highlighted major obstacles related to obtaining the correct opening balance particularly for assets.

There are not many documented studies on the development of accrual accounting at state government level and none on the adoption of MPSAS. A study by Sariman, Mahadi, Mail and Noordin (2017) found a lot of similarities in terms of the implementation strategies taken by the federal and state governments. Although the state governments were expected to implement accrual accounting a year after the federal government, the study found that in the three states under review, i.e., Selangor, Sabah, and Penang, progress had been made in creating awareness, providing training for the accounting staff, and developing the necessary accounting software.

Method

This paper presents the outcome of archival research in which past studies and published information were reviewed. The objective is to identify the issues and challenges faced by countries that had decided to adopt IPSAS. This preliminary paper is part of a bigger project on IPSAS adoption by the state governments in Malaysia. Since Malaysia is a developing country, the review also focuses on developing countries with available published information on their journey towards IPSAS adoption. The countries included in the review are Tanzania, South Africa, Ghana, Nigeria, Zambia, Zimbabwe, Indonesia, Jordan, Nepal, Sri Lanka, Bangladesh, Pakistan and India. Using a simple thematic analysis, the prior studies were analysed to extract the issues and challenges on IPSAS adoption according to several themes.

Discussion

The discussion starts with an overview of the development of IPSAS, the benefits, and prerequisites for IPSAS adoption. This is followed by an overview of the experience of several developing countries in their efforts towards adopting IPSAS. Subsequently, this paper provides a discussion on the issues and challenges faced by several countries in implementing IPSAS based on three main themes: lack of resources, accounting and reporting issues, and top management commitment.

The International Public Sector Accounting Standards Board (IPSASB) had formulated and issued the cash basis and accrual basis IPSAS to ensure the quality of reporting and harmonisation of accounting practices across different governments. Most of the IPSAS were adaptations of the International Financial Reporting Standards (IFRS) used in the private sector applicable to the public sector. For financial reporting issues not dealt with, or not related to IFRS, a new set of standards were developed. The IPSASB has continued to encourage the adoption of IPSAS by governments across the globe by “developing and maintaining IPSAS and other high-quality financial reporting guidance for the public sector; and raising awareness of IPSAS and the benefits of accrual adoption” (IPSASB website).

The benefits of IPSAS adoption include greater accountability and transparency, improved efficiency and effectiveness in financial reporting and greater standardisation that will result in better decision making (ACCA, 2017). A publication by Deloitte (2015, p. 50) lists the following as expected benefits of implementing accrual basis IPSAS:

i. Availability of more comprehensive information for decision making

ii. Improved stewardship of assets and liabilities

iii. Increased transparency and accountability of the public sector

iv. Better management of government resources enabling efficiency and cost effectiveness

v. Better consistency and comparability with other governments worldwide

vi. Enhanced reporting of Government Finance Statistics (GFS) required by the International Monetary Fund (IMF).

The recent International Public Sector Financial Accountability Index developed by IFAC and CIPFA showed an increase (from 39% in 2018 to 49% in 2020) in jurisdictions that reported on an accrual accounting. The use of IPSAS by jurisdictions that reported on accrual accounting has also increased slightly from 51% in 2018 to 57% in 2020 (IFAC and CIPFA, 2021). Setting national standards is expensive, thus, it is not surprising that most developing countries prefer to adopt IPSAS either without any modifications or modify it for the local context. In addition, these countries would also choose to adopt IPSAS to gain international legitimisation and to attract foreign investment. Developed countries such as Canada, Denmark, France, and the US have developed their own national standards. Australia and the United Kingdom have developed national standards based on IFRS while Sweden, Switzerland and New Zealand have developed national standards based on IPSAS.

Prerequisites for IPSAS Adoption

In a study by ACCA that covered several countries in Asia, Africa, South America, the Caribbean and Latin America and Europe, it was observed that the rate of progress on IPSAS adoption had been slow. Full adoption and compliance with IPSAS were found to be difficult. Hence, the ACCA (2017) and IFAC (2020) have recommended that countries address the following factors to ensure successful adoption of IPSAS:

ACCA	IFAC
Stakeholder engagement	Strong political support at the highest level of elected officials. Commitment to implementation from senior appointed officials.
Structural and legal transformation	Legislation
Transformation and change management	Promoting a cultural and mind-set change. Recognising that reform is for enhanced financial management and not merely a book-keeping exercise. Overcoming resistance to change.
Skills capacity	Staff that is open to training and will accept an accrual accounting perspective
Cost	Initial budget and project budget
Technology and infrastructure	Integration of information technology systems
Implementation approach	Project planning and gap analysis
External support	External support

Source: ACCA (2017) and IFAC (2020)

Adoption of IPSAS in Developing Countries

African countries have been recognised as being at the forefront of IPSAS adoption. They embarked on IPSAS adoption as part of their financial management reform programmes and several countries have formally adopted IPSAS. Tanzania adopted IPSAS as early as 2013, while other countries such as South Africa, Ghana and Nigeria had partially adopted the standards. On the other hand, Zambia began adopting cash basis IPSAS in 2016 and had expressed its commitment to full adoption by 2020. Zimbabwe had declared its intention to adopt accrual basis IPSAS by 2021. Tanzania reported that it had published 222 audited financial statements in 2016, out of which 24 had qualified opinions, 3 had observed opinions, and 5 had disclaimers (ACCA, 2017).

South Africa had been facing many challenges in its journey towards full adoption of IPSAS. It had partially adopted IPSAS, and full implementation would only be realised once the Financial Management Information System that supports the Generally Recognised Accounting Practice (GRAP) had been completed. South Africa was found to use accrual accounting but not fully complied with the GRAP, resulting in significant problems with the quality of its public sector accounts (Auditor-General of South Africa, 2017). Ghana and Nigeria both adopted IPSAS in 2016 but the move towards full implementation had been hampered by the lack of accountancy capacity to cope with the demands of IPSAS full implementation. In the case of Zimbabwe, the government had targeted the year 2021 to fully implement accrual basis IPSAS to replace the cash accounting currently used by the central government and local authorities (ACCA, 2017).

The implementation of IPSAS in Asia was triggered by the Asian financial crisis in the late 1990s. Due to requirements by the IMF and the World Bank, many countries embarked on financial management reforms in their public sectors. The biggest movement towards IPSAS adoption happened around 2015/2016 with countries such as Indonesia, Malaysia and Jordan announcing their decision to adopt IPSAS. Indonesia started its public sector reform programme in 1999 and reported to fully implement IPSAS in 2015 in all its entities. Full authority was given to its Ministry of Finance to oversee the process. Indonesia developed its own national standards with reference to IPSAS and by 2016, thirteen Indonesian Government Accounting Standards (IGAS) had been issued comprising 4 interpretations and 9 technical bulletins (ACCA, 2017).

Jordan was one of the earliest adopters of IPSAS in the Middle East. Its Ministry of Finance had officially endorsed the adoption and the implementation of IPSAS in 2015, a move from its modified cash basis public sector accounting standards (ACCA, 2017). The Jordan government had prepared a five-year implementation roadmap under its Fiscal Reform Project. Among the reform projects that Jordan had implemented were “the adoption of the cash basis IPSAS; a review and consolidation of tax legislation; the adoption of results-oriented budgeting; applying a new chart of accounts; applying a common data standard; moving to a Treasury single account; and establishing government financial management information system” (ACCA, 2017, p.11). In 2015, the Jordan government issued its financial statement using both cash basis IPSAS and accrual basis IPSAS. In the context of Arab countries, Jordan claimed to be the first to adopt full IPSAS while other countries were still in the process of implementation (Abu Haija, AlQudah, Aryan and Azzam, 2021).

Nepal had partially adopted IPSAS type standards with the use of cash basis IPSAS for its 16 government ministries. It started with the development of the Nepal Public Sector Accounting Standards (NPSAS) by its Accounting Standards Board which stipulated the mandatory and non-mandatory parts for enhanced disclosures. All government entities were required to adopt NPSAS under the guidance of the Financial Comptroller General Office (FCGO). The implementation was first started by the central government, followed by other operational entities (Adhikari, 2015). Sri Lanka embarked on its IPSAS implementation on a phased approach basis. Sri Lanka had issued 10 accounting standards out of the 32 IPSAS international standards, referred to as the Sri Lanka Public Sector Accounting Standards (SLPSAS). However, adoption of SLPSAS was not mandatory resulting in the lack of full compliance in the financial reporting practices by its public sector agencies (ACCA, 2017).

Other countries including Bangladesh, Pakistan, and Vietnam were in the process of implementing IPSAS. Bangladesh had been using cash basis IPSAS in its reporting, but the implementation progress had been hindered by several factors. Pakistan had also made progress in its IPSAS adoption by implementing the cash basis IPSAS since 2006/07. It started with the development of the New Accounting Model (NAM) and the Financial Statements of the Accountants General of the state and federal governments were being prepared based on the cash basis IPSAS. On the other hand, India had been using a combination of cash and accrual-based accounting (Narsaiah, 2019). Initial steps were taken towards IPSAS implementation in 2013 but the implementation was delayed as the Indian government wanted to ensure the challenges were first addressed and a detailed roadmap outlined.

Malaysia's experience with IPSAS implementation started in 2011 with the government's announcement that the country would fully adopt IPSAS type standards by 2015. The AGD formed the Accrual Accounting Implementation Team (*Pasukan Pelaksanaan Perakaunan Akruan - PPPA*) to spur the accrual accounting adoption. The Malaysian Public Sector Accounting Standards (MPSAS) was then developed together with change management programmes to facilitate the adoption of accrual basis IPSAS. In addition, implementation of accrual accounting was also supported by a computerised accounting system, the Integrated Government Financial Management and Accounting System (iGFMAS). Malaysia faced many challenges in its journey towards IPSAS adoption which has delayed its target for full implementation by 2015. The reporting of accrual based financial reports has been postponed awaiting approval of amendments to the relevant acts.

Issues and Challenges in the Implementation of IPSAS

The review of the experiences in IPSAS adoption around the world reveal that the main challenges can be categorised into three themes: (1) Lack of resources; (2) Accounting and reporting issues; and (3) Top management commitment. Therefore, this section highlights the challenges faced by several developing countries as described above according to the three themes.

1. Lack of Resources

Having adequate resources are amongst the prerequisites in successfully implementing accrual accounting or IPSAS because it involves a change in accounting techniques from the simpler cash accounting practices to a more comprehensive accounting system. Both ACCA (2017) and IFAC (2020) have listed several key resources required, such as skills capacity, allocation of costs to cover the implementation as well as the upgrade in technology, infrastructure and the integration of accounting systems.

Several African countries were unable to migrate from the use of cash basis IPSAS to IPSAS due to weaknesses in their IT systems. As in many other countries, inadequate capacity building involved in the preparation of financial statements had further aggravated the situation. South Africa had recognised its resource challenge as the lack of manpower. Jordan, in contrast, had highlighted its key success factors in adopting the IPSAS as having the right infrastructure (sufficient hardware and software, adequate internal and external network facilities, continuous update of the systems and accounting records and forms to comply with IPSAS requirements), and manpower training (Abu Haija, AlQudah, Aryan and Azzam, 2021).

Wang and Miraj (2018) reported that Sri Lanka was having problems with the lack of experienced staff, while inadequate training of accounting staff was also identified as one of the challenges faced by Pakistan. In Bangladesh, the challenge was that separate accounting systems were being used by the ministries and other government entities and this in turn compromised the effective adoption of the IPSAS, thereby delaying the production of useful and timely financial reports (Wang and Miraj, 2018).

In the case of Indonesia, although it had claimed full implementation of the IPSAS, the government faced challenges in terms of the lack of usefulness of the IPSAS-based reports for decision making as well as incurring higher accounting costs without clear economic benefits. In addition, Indonesia had also encountered problems with inadequate competent staff (Harun, Eggleton and Locke, 2021).

Malaysia had also faced similar challenges. However, many of the challenges, such as cost allocation for capacity building, IT infrastructure, integrated accounting systems and training had been managed accordingly. The government had been actively recruiting qualified accountants, organising seminars and workshops to enhance awareness, and conducting training to improve the skills of existing employees. Nevertheless, skills capacity had remained a challenge as it required time to develop as well as improve during the implementation stages (Isa et al, 2013).

2. Accounting and Reporting Issues

Using accrual accounting would require government entities to enhance and transform their financial accounting and reporting methods tremendously. Recognition of assets, liabilities, revenues, and expenses needs to be done in a more comprehensive manner, thus, creating a huge hurdle for many governments, especially those that do not have systematic and sufficient records of accounting information. The challenges faced by the African countries have included the need to identify and recognise intangible assets and to reconcile cash books and bank statements. This had been further complicated by the fact that budgets were generally prepared on a cash basis while the financial reporting framework was based on IPSAS accrual accounting which had led to a mixture of cash and accrual entries in the financial statements (ACCA, 2017).

South Africa identified inadequate or missing documentation for accounts disclosed in the financial statements as the main reason for its qualified, adverse and disclaimer opinion (Auditor-General of South Africa, 2017). As for Zambia, the main challenge in implementing IPSAS was difficulty in collecting and accounting for revenue as well as the lack of information on expenditures, assets, and liabilities. Among the challenges faced by Zimbabwe were a lack of invoices and receipts, delays in submitting accounts, reconciliation issues and a weak debt recovery system. This was further aggravated by weaknesses in governance (ACCA, 2017). In Nepal, the main problem faced in the implementation of the Nepal Public Sector Accounting Standards (NPSAS) was difficulty in collecting the required data for disclosure of third-party transactions (ACCA, 2017).

In Bangladesh, the problem was that the public sector entities and individual departments do not manage their own cash; it was managed centrally by the government with the accounting functions being categorised as a consolidated fund and a treasury fund (ACCA, 2017). Furthermore, the financial authority given to the public sector entities through the budget was limited. All self-accounting entities (SAEs) report their financial transactions to the Controller General of Accounts (CGA), who later incorporated them in the monthly central accounts and the annual finance accounts. Delays in document submission to the CGA by the SAEs had also contributed to the low quality and untimeliness of the reports. This in turn had adversely affected the ability of the government in monitoring the implementation of the budget.

Similarly, Wang and Miraj (2018) reported that Pakistan faced data reliability issues because the data were provided by various entities, and there were also inconsistencies in the recognition and recording of the financial transactions, thus impairing the completeness and timeliness of the information provided for the reports. In addition, the Pakistani government had not yet integrated its budgeting and accounting standards. This had led to difficulties in holding specific entities accountable for their public spending. Likewise, among the challenges faced by India were a lack of appropriate accounting policies and insufficient information on assets and liabilities across various public entities (Wang and Miraj, 2018).

As in many other developing countries who had been using cash accounting and were new to accrual accounting, Malaysia had also faced the problem of information scarcity to determine beginning balances for assets. Ismail et al. (2013) concluded that a lack of staff competencies had caused difficulties in implementing IPSAS related to the recognition, measurement and disclosure of property, plant, and equipment. Basnan et al. (2015) also reported a lack of expertise in recognising and measuring heritage assets, while Md Yatim and Norhashim (2016) highlighted major obstacles in implementing IPSAS related to obtaining the correct opening balance particularly for assets.

3. Top Management Commitment

Top management commitment, commonly referred to as the ‘tone from the top’, had been identified as one of the critical factors in determining the success of change programmes (Isa et al., 2013). For example, it was claimed that Jordan’s successful implementation of IPSAS was due to significant top management commitment through the introduction of local legislation (with a clear road map and procedures), and stakeholder support (from top management and related parties) as well as external support (from external experts and professional bodies) (Abu Haija et al., 2021). On the other hand, countries like Nepal had been facing problems in the implementation of NPSAS due to the lack of support from stakeholders, including top management. Senarath and Ukhwate (2015, as cited in Wang and Miraj, 2018) reported that Sri Lanka was still working on implementing its 10 SLPSASs because its adoption had not been made mandatory and this had resulted in different execution stages among the government entities. Similarly, the lack of delegation of authority had resulted in various accounting issues being faced by Bangladesh in its implementation of IPSAS (ACCA, 2017).

In the case of India, Wang and Miraj (2018) stated that the lack of top management support had resulted in the variance levels of readiness amongst the different entities within the Indian government. Furthermore, the implementation of IPSAS had been hindered by difficulties in organisational restructuring and identifying the pilot implementation sites as well as inadequate execution planning. Similarly, Isa et al. (2013) found that inconsistent top management commitment in the different ministries in Malaysia had slowed down progress in implementing accrual accounting. While several ministries had conducted awareness programmes, gap analysis, training and upskilling, improvement in the infrastructure and IT system, others had not made the progress envisaged by the AGD.

Conclusion

In general, the experiences in IPSAS implementation across developing countries have been very similar and can be categorised in three broad areas: first, resources which include a lack of competent accounting and finance staff, and a lack of IT facilities and IT support; second, accounting and reporting issues related to difficulties in assets, liabilities, revenue and expenses recognition and measurement; and third, top management commitment in ensuring successful change management programmes. Strong support and commitment from the government to push the IPSAS agenda is considered to be one of the most critical factors in ensuring its successful implementation. Similar observations had been made in the report by Deloitte (2015, pp. 51-52) in which four challenges were identified: (1) the need for a realistic programme timeline and appropriate planning with a clear transition strategy and detailed adoption roadmap; (2) buy-in of operational government leadership; (3) capacity of finance department employees and technical accounting support that may require training and technical support; and (4) difficulty in identifying and recognising property, plant and equipment.

Learning from the challenges faced by developing countries, Malaysian state governments should ensure that they carefully observe the fundamentals for a successful implementation of MPSAS so the right strategies can be formulated. State governments should allocate adequate resources for human capital development, IT infrastructure and support, collection of accounting records and information on assets and liabilities. In addition, it is important to have the buy-in from accounting and finance staff as well as support from professional bodies and the federal government. Furthermore, state governments must ensure that they have the engagement and support of their elected officials and top management.

As mentioned before, this paper presents a review of the literature that is limited to the issues and challenges related to the adoption of the IPSAS in various countries. The next phase of the study aims to discover the stage of implementation, employee's awareness, and commitment, as well as issues and challenges faced by the Malaysian state governments in the adoption of accrual accounting and MPSAS.

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