

Malaysian Public Sector Accounting Standards (MPSAS) Implementation in State Governments of Malaysia: Status and Challenges

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Abstract

Purpose: This paper aims to share the experience of state governments in Malaysia in implementing the Malaysian Public Sector Accounting Standards (MPSAS).

Methodology/Approach: A mixed methods study involving questionnaire survey and interview was employed. The study covers all 13 state governments of Malaysia. A total of 147 accounting and finance staff responded to the questionnaires and 12 interview sessions were held in 12 states involving the state treasurers.

Findings: Similar challenges observed in other countries in implementing IPSAS prevailed in the 13 state governments, which are (i) resources related to lack of competent accounting and finance staff, and lack of IT facilities and IT support; (ii) accounting and reporting issues related to difficulties in assets, liabilities, revenue and expenses recognitions and measurement; and (iii) top management commitment in ensuring successful change management programmes. However, many of those challenges have been tackled except for the application of MPSAS, where trained staff is still lacking.

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Research Limitations/Implications: This paper explores the implementation of accrual accounting via the computerised accounting system used by the state governments in Malaysia. The system caters to both MPSAS accrual accounting and cash accounting reports. Production of MPSAS accrual accounting reports has not been made mandatory. Thus, the discussion in this paper is limited to respondents' experience with the computerised MPSAS-based accrual accounting system used to produce cash accounting reports.

Practical implications: Findings from this paper provide insights for state governments to plan for effective implementation of MPSAS.

Originality/value: This paper discovers the real issues faced by the state governments of Malaysia in implementing MPSAS.

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

Introduction

Accrual accounting has been on the financial management agenda in Malaysia since 2010, when the Malaysian government introduced the New Economic Model (NEM) 2011-2020 (National Economic Advisory Council, 2010). The main objective of adopting accrual accounting is to facilitate asset-liability management in the public sector. There has been a global financial management reform agenda where governments follow the private sector management practices to promote economy, efficiency and effectiveness in the public sector. To facilitate the accrual accounting adoption, the Malaysian government developed national standards, the Malaysian Public Sector Accounting Standards (MPSAS) based on the International Public Sector Accounting Standards (IPSAS). Only minor changes were made to the IPSAS to adapt to the national circumstances (IFAC, 2013). Two committees were responsible for developing and implementing MPSAS: the Government Accounting Standards Advisory Committee (GASAC) and the Accrual Accounting Steering Committee (ACSC). GASAC was responsible for developing the standards while ACSC is tasked with approving the standards for application in preparing government financial reports.

The Malaysian government made the decision to adopt accrual accounting in 2011 with the target for full implementation in 2015. A year lapse was given for the state governments' full implementation, which should be in 2016. Given the various issues and challenges faced by both the federal and state governments, the target year for full implementation has been pushed forward several times, with the latest being 2022 for the federal government and 2023 for the state governments. Several countries have adopted accrual accounting prior to the introduction of accrual basis IPSAS, while many more are in the process of implementation.

Various studies were conducted by researchers from professional bodies as well as academics and findings on the experiences, issues and challenges in the accrual accounting or IPSAS implementation were shared. Thus, it may be easier for other countries that are still in the progress of implementation, like Malaysia and the state governments, to learn from other countries' experiences.

This paper aims to share findings on the status, issues and challenges faced by the state governments in Malaysia in implementing MPSAS. The following section discusses the problem statement while highlighting the significance of the study. This is followed by the literature review, methodology and discussions. This paper ends with a concluding remark and recommendation.

Problem Statement and Research Objectives

Many studies in Malaysia focus on either the federal government's adoption of accrual accounting or specific accounting issues pertaining to the adoption, while this paper elaborates on the overall experience and challenges faced by the state governments of Malaysia in the implementation of MPSAS. It is worth noting that accrual accounting has been on the agenda since the 1990s, and the MPSAS has only been completed recently, thus, publications on MPSAS adoption are close to none, especially among the state governments.

There are several studies on the issues and challenges in adopting and implementing accrual accounting. Those studies either focus on the federal levels or specific ministries only while others examine specific issues at specific ministries or only a few state governments. A study on the implementation of accrual accounting in central governments by Isa, Saleh and Abu Hasan (2013) reported the key success factors for the accrual accounting implementation at the federal government of Malaysia include strong support from top management, availability of hardware, the readiness of accounting systems, sufficient accounting skills, enhanced awareness among all staff and detailed action plans prepared for each organization.

A case study conducted on Ministry of Education employees by Azmi and Mohamed (2014) found that the employees are ready to implement accrual accounting but pointed out that the qualification and skills of the employees to apply the new system are of 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) found that change valance or belief that change will benefit the organization; while task knowledge and availability significantly influence change commitment. Several other studies have also reported that the issues, challenges and factors influencing accrual accounting implementation are human resource competency, software and technology capability, suitability of accounting policies and standards, and effective communication (Yusof and Jaafar, 2018; Ahmad, 2016). In addition, Mahadi, Noordin, Mail and Sariman (2014) found

implementation barriers such as difficulties in recognizing and valuing assets and liabilities, human competency, and high implementation costs.

Specific studies on accounting standards were undertaken by Ismail, Abdullah and Zainuddin (2013), which reported the issues in implementing IPSAS includes recognition, measurement and disclosure of property, plant, and equipment. They recommended that the Accountant General's Department (AGD) should provide intensive training to address the lack of staff competency before the full implementation of accrual accounting. Basnan, Md. Salleh, Ahmad, Harun and Upawi (2015) investigated the challenges of recognising and measuring heritage assets and found that staff competency is an issue that must to be addressed. Another study that investigated accounting practice was 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 the state governments, nor any on the adoption of MPSAS. A study by Sariman, Mahadi, Mail and Noordin (2017) found many similarities in the implementation strategies taken by the federal and state governments. Although state governments are expected to implement accrual accounting a year after the federal government, the study found that for the three states being studied i.e., Selangor, Sabah, and Penang, progress has been made in creating awareness, providing training for the accounting staff, and developing the accounting software. This study aims to explore the status, issues and challenges in implementing accrual accounting in the state governments in Malaysia.

Four research objectives were formulated:

1. To assess the current state of MPSAS-based accrual accounting implementation at the state governments.
2. To assess the current level of individual awareness and commitment to change towards accrual accounting among the state government accounting and finance staff.
3. To examine factors influencing the success of MPSAS-based accrual accounting implementation.
4. To examine issues, challenges and factors influencing the success of full adoption of MPSAS.

All 13 state governments responded to the questionnaire surveys and 11 respondents were interviewed. Thus, it will contribute significantly to knowledge about the state governments' status, issues and challenges in adopting the MPSAS-based accrual accounting. It will also provide information for the AGD in supporting the efforts made by the state governments.

Literature Review

The new public management idea and public sector reform movements which started in the 1980s have led to many governments adopting accrual accounting. Some governments even adopted the International Financial Reporting Standards (IFRS) used by private sector organisations in an effort to improve public sector financial management. In order to ensure financial reporting consistency, quality and harmonisation among accounting practices across different governments, the International Public Sector Accounting Standards Board (IPSASB) issued the IPSAS. The IPSAS, however, were mostly adaptations of the IFRS to suit the public sector context. For several financial reporting issues that are not related or not covered by the IFRS, the IPSASB developed a new set of standards.

Driven by the reforms and perceived benefits of accrual accounting, countries across the globe have been making efforts to adopt accrual accounting. Developed countries have adopted accrual accounting much earlier, evident by published literature about their efforts being dated before the 2020s. Based on developed countries' experience, IFAC and many other accounting professional bodies published guidelines and recommendations for a successful transition towards accrual accounting. IFAC has also been providing consultation and reviews to assist the transition, especially for developing countries that rely on international financial assistance.

Developing countries seem to be having more issues, mainly due to their lack of financial resources to fund the transition. It is also possible that the adoption has not been prioritised because resources can be best spent elsewhere. Listed below are the recommendations made by ACCA (2017) and IFAC (2020) to ensure successful IPSAS adoption. These recommendations are based on their study and working experience with various countries.

- i. Engagement of stakeholders, strong political support at the highest level of elected officials, commitment to implementation from senior appointed officials;
- ii. Transformation of structure and legislation;
- iii. Cultural and mindset change;
- iv. Improve staff skills capacity and willingness to accept accrual accounting;
- v. Budget and cost allocation for the infrastructure, training and others;
- vi. Integration of information technology;
- vii. Gap analysis and proper project planning; and
- viii. Seek external support.

As this paper aims to share the status, issues and challenges faced by the Malaysian state governments in implementing MPSAS, the following discussions enlighten the status, issues and challenges in other developing countries. It is also worth noting that many developing countries adopted accrual accounting because of the requirements from donor organizations that provided financial assistance to these countries. African countries have been recognised

as at the forefront of IPSAS adoption, where they embarked on IPSAS adoption as part of their financial management reform programmes. Both Ghana and Nigeria adopted IPSAS in 2016, but implementation was slowed by the lack of accountancy capacity to cope with the demand for the full implementation of IPSAS. Zambia has expressed its commitment for full adoption by 2020 and the main challenge it faced was the difficulties in collecting and accounting for revenue as well as the lack of information on expenditures, assets and liabilities. Zimbabwe's government targeted to fully implement the IPSAS by 2021 to replace the cash accounting currently used by its central government and local authorities. The challenges faced by Zimbabwe include governance weaknesses, reconciliations, lack of invoices and receipts, delays in submitting accounts and weak debt recovery systems (ACCA, 2017).

Tanzania was among the early full adopters of IPSAS in Africa, where it formally adopted IPSAS in 2013. It published 222 audited financial statements in 2016, out of which 24 had qualified opinions, 3 observed opinions and 5 disclaimers (ACCA, 2017). Among the challenges it faced were identifying and recognizing intangible assets, reconciling cash books and bank statements, and the weaknesses in information technology systems.

Added to the complications was the fact that the budget was prepared on a cash basis while the financial reporting framework was based on IPSAS accrual accounting, resulting in financial statements with some entries based on accruals and others on cash. Similar to many other countries, inadequate capacity building involved in preparing financial statements further aggravated the situation.

South Africa has partially adopted IPSAS, and full implementation can only be realised once the Financial Management Information System that supports Generally Recognised Accounting Practice (GRAP) is completed. Thus, it has significant problems with the quality of its public sector accounts, resulting in many qualified audit reports. Among the main reasons for qualified, adverse, disclaimer opinion was inadequate or missing documentation for accounts disclosed in the financial statements (Auditor-General of South Africa, 2017). South Africa also reported problems of manpower shortage.

The implementation of IPSAS in Asia was triggered by the Asia financial crisis in the late 1990s. Due to the IMF and World Bank requirements, many countries started to embark 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 was reported to fully implement IPSAS in 2015 in all entities. Full authority was given to the Ministry of Finance to oversee the process. Indonesia developed its own national standards with reference to the IPSAS. By 2016, thirteen Indonesian Government Accounting Standards (IGAS) were issued, comprising 4 interpretations and 9 technical bulletins (ACCA, 2017). Among the challenges reported by Indonesia are the underuse of IPSAS-based reports for decision making, the rise of accounting costs in which

economic benefits remain unclear, the lack of competent staff who can operate the new accounting system and costly implementation (Harun, Eggleton and Locke, 2021).

Jordan is one of the earliest adopters of IPSAS in the Middle East. Its MOF had officially endorsed the adoption and the implementation of IPSAS in 2015, a move from the modified cash basis public sector accounting standards (ACCA, 2017). The Jordan government prepared a five-year implementation roadmap under Jordan's Fiscal Reform Project. Among the reform projects that Jordan implemented are "the adoption of 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 Jordanian government issued its financial statement using both cash basis IPSAS and accrual IPSAS. Jordan claimed to be the first Arab country in the region to use full IPSAS, while other countries were still in the process of implementation. The key success factors in adopting IPSAS in Jordan include local legislation (with clear road map and procedures), infrastructure (sufficient hardware and software, sufficient internal and external network facilities, continuous update of the systems and accounting records and forms that comply with IPSAS requirements), stakeholders (support from top management and related parties) and external support (from external experts and the professional bodies) and training (Abu Haija, AlQudah, Aryan and Azzam, 2021).

Nepal had partially adopted IPSAS type standards using cash basis IPSAS for its 16 government ministries. It started with the development of Nepal Public Sector Accounting Standards (NPSAS) by its Accounting Standards Board which stipulates 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 central government first started the implementation, followed by other operational entities. The problems faced in implementing NPSAS include inadequate qualified staff, especially in finance and audit, lack of support from stakeholders, and difficulty collecting the required data for disclosure of third-party transactions.

Sri Lanka embarked on IPSAS implementation based on a phased approach. Sri Lanka has issued 10 accounting standards out of the 32 IPSAS international standards, referred to as Sri Lanka Public Sector Accounting Standards (SLPSAS). However, the adoption of SLPSAS was not mandatory, resulting in a lack of full compliance in the financial reporting practices by its public sector agencies. In addition, Sri Lanka is also facing challenges such as a lack of experienced staff, inadequate change management structures, failure by the governments to institute professional committees to oversee the reforms, and inconsistencies in the adoption process by the individual public entities (Wang and Miraj, 2018).

Other countries, including Bangladesh, Pakistan, and Vietnam, are in the process of implementing IPSAS. Bangladesh applies cash basis IPSAS in its reporting, but several factors hinder the implementation progress. The country's public sector entities and individual departments do not manage their own cash as it is managed centrally by the government. This has resulted in the accounting functions being categorised as consolidated and treasury funds (ACCA, 2017). Furthermore, the financial authority given to public sector entities through the budget is limited. All self-accounting entities (SAEs) report their financial transactions to the Controller General of Accounts (CGA), which will incorporate them in the monthly central and annual finance accounts.

These factors have contributed to the low-quality reports and lack of timeliness in reporting due to delays in document submission to CGA by the SAEs. This, in turn, adversely affects the ability of the government to monitor the implementation of the budget. Wang and Miraj (2018) reported that separate accounting systems used by ministries and other government entities had compromised the overall quality and effective implementation of the IPSAS in Bangladesh, as well as the delayed production of financial reporting, which impaired its timeliness and usefulness.

Pakistan has also made progress in IPSAS adoption by implementing cash basis IPSAS since 2006/07. It started with the development of the New Accounting Model (NAM). At present, the state and the federal government's Financial Statements of Accountants General are prepared based on cash basis IPSAS. Similarly, as reported by Wang and Miraj (2018), Pakistan faced data reliability issues as the data is provided by various entities, impairing the completeness and timeliness of the information. There are also inconsistencies in recognising and recording the financial transactions, accounting staff are not adequately trained to adapt to the process in each of the phases, thus making it challenging to standardise the process. In addition, the government has yet to integrate the budgeting and accounting standards in a comparable manner, as such, it is difficult for stakeholders to hold specific entities responsible because they spend public resources being among the challenges faced by Pakistan, as reported in Wang and Miraj (2018).

On the other hand, India has been using a combination of cash and accrual-based accounting (Narsaiah, 2019). Initial steps were taken toward IPSAS implementation in 2013, but the implementation was delayed as the Indian government wanted to ensure the challenges were addressed and a detailed roadmap had been outlined. Among the challenges faced by India are the difference in readiness by the entities within the Indian government and other public entities, scarcity of information on assets and liabilities across many public entities and lack of appropriate accounting policies (Wang and Miraj, 2018). Furthermore, restructuring of the organisation, determination of the pilot implementation sites, and a thorough execution plan have not been adequately designed and initiated to support the process.

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 Malaysian Public Sector Accounting Standards (MPSAS) were then developed together with change management programmes to facilitate the adoption of accrual basis IPSAS. Malaysia has faced many challenges in its journey toward IPSAS adoption, which has impeded its target for full implementation of 2015. The reporting of accrual-based financial reports has been postponed pending approval of amendments to the relevant acts.

In addition, similar with other countries related to lack of expertise, Malaysia also faced inadequate infrastructure and IT support as well as issues related to accounting recognitions and treatments. Generally, the experiences in IPSAS implementation across developing countries are very similar and the factors that influence adoption can be categorised into three broad areas:

- i. **Resources** in which implementation is slowed down due to lack of competent accounting and finance staff and lack of IT facilities and IT support;
- ii. **Accounting and reporting issues** that relate to difficulties in recognition and valuation of assets, liabilities, revenue and expenses; and
- iii. **Top management commitment** in ensuring successful change management programmes. Strong support and commitment from the government to push the IPSAS agenda is considered one of the most critical factors in ensuring the successful implementation of IPSAS.

Methodology

This paper aims to share findings on the status, issues and challenges in adopting accrual accounting in Malaysia's state governments. The conceptual framework used to approach this study has been the new public management and reforms that have seen global accrual accounting adoption in the public sector. IFAC and many other accounting professional bodies have published guidelines and recommendations for a successful transition towards accrual accounting. To realise the aim of this study, a mixed methods approach has been adopted, utilising a combination of archival searches, questionnaire surveys and interviews. The instruments for questionnaires have been developed based on the IFAC and professional bodies' guidelines and instruments used in a study by Abu Haija et al. (2021).

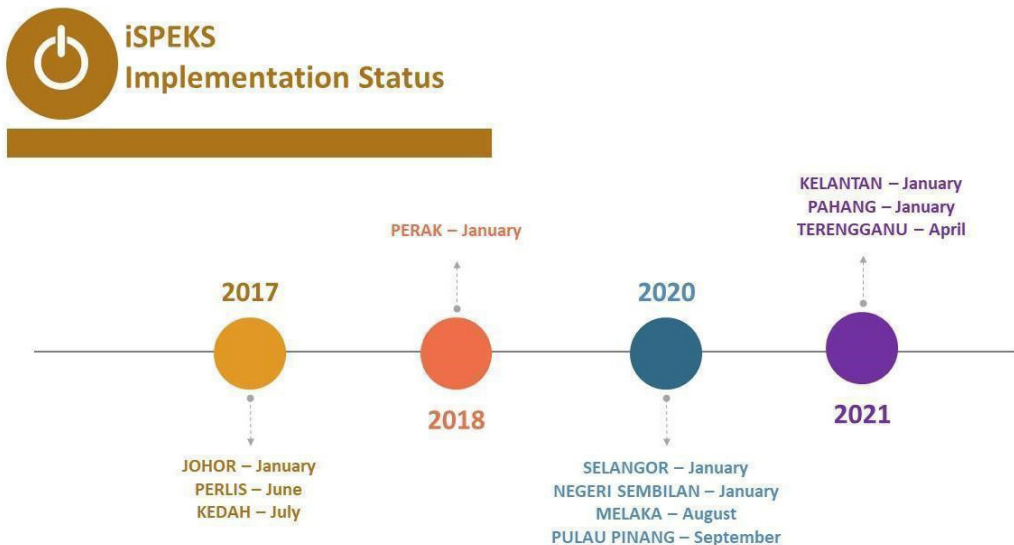
This study covers the 13 state governments of Malaysia, and the respondents are their accounting and finance staff. Online questionnaire surveys were administered, and 147 responses were analysed and tabulated in the findings section. Semi-structured interviews were then conducted with 11 state governments separately to support and confirm the findings obtained from archival searches and questionnaire surveys. The interviews were conducted using similar questions adapted from the questionnaire survey with additional questions based on the findings of the survey. All interviews were held online using the Google Meet platform. All of the information obtained has been analysed descriptively,

while interview data were used to support explanation and discussion. The following section discusses the findings.

Discussion

Generally, it is found that all state governments in Malaysia have made a significant effort to implement accrual accounting with support of the AGD. Diverse awareness and training programmes and workshops were held to prepare staff at the state governments to implement accrual accounting, although initially, the exposures were more on accrual accounting instead of MPSAS. The accounting system for the state governments (except for Sabah and Sarawak) was developed by the AGD. The Integrated State Accrual Accounting System (Sistem Perakaunan Akruan Kerajaan Negeri, iSPEKS) for the state governments started in 2015. The system can produce financial reports on an accrual and cash basis. iSPEKS was implemented on a pilot basis. As shown in Figure 1 below, it started with Johor in January 2017 and ended with Terengganu in April 2021. The implementation of iSPEKS affects the phase in which accrual accounting is implemented since MPSAS are embedded in the system.

Figure 1: iSPEKS Implementation Status



(Source: AGD Website <https://www.anm.gov.my/en/accounting/accounting-system/ispeks>)

Although there is no mandatory requirement to publish MPSAS annual financial statements, the effort to get ready prevailed in all states, especially when the accounting software iSPEKS is installed and running. To use iSPEKS, the state governments must start collecting

information on assets and liabilities to enable opening balances. Thus, the earlier iSPEKS is being implemented, the faster implementation of accrual accounting and adoption of MPSAS would be.

The following discussions will focus on the level of MPSAS adoption in the state governments of Malaysia, their readiness and perceived challenges that they face. To assess the level of MPSAS adoption, questions were asked on the accounting standards being referred to, whether iSPEKS (or their own computerised accounting system, in the case of Sabah and Sarawak) has been fully functional and whether the staff are able to use the computerised accounting system.

Table 1 shows that all three standards, Government Accounting Standards (PPK), Cash Basis IPSAS and MPSAS, are being referred to. The results show that both cash and accrual accounting is still being practiced. All interviewees confirm this. This situation is not a surprise because the Financial Procedure Act 1957 has not been amended, therefore, all state governments are still required to publish cash basis financial statements. Based on the results, 70.1% of the respondents indicated the use of MPSAS, in which 49.7% only refer to MPSAS while 20.4% are using MPSAS with PPK and/or Cash Basis IPSAS or all three standards. To gain further insights on the findings, clarifications were obtained during the interviews. iSPEKS can generate both cash and accrual-based financial reports. Accounting entries are captured under the accrual basis and the system will transform the information to generate cash-based financial statements. Thus, it is understood why almost half of the respondents no longer refer to PPK or Cash Basis IPSAS.

Table 1: Accounting Standards Being Referred To

| Accounting Standards | Frequency | % |
|---------------------------------|-----------|--------|
| PPK | 37 | 25.2 |
| Cash Basis IPSAS | 7 | 4.76 |
| MPSAS | 73 | 49.7 |
| PPK and MPSAS | 10 | 6.8 |
| Cash Basis IPSAS and MPSAS | 6 | 4.1 |
| PPK, Cash Basis IPSAS and MPSAS | 14 | 9.5 |
| Total | 147 | 100.00 |

N= 147

Source: Survey Data

Table 2 shows the respondents' view on the installation and use of iSPEKS (or the computerised accounting system in the case of Sabah and Sarawak), the ability of staff to use the system, opinion on whether accrual has been fully implemented and whether MPSAS has been fully adopted. More than half of the respondents indicated that iSPEKS is fully functioning (63.9%), while only 14.9% of the respondents indicated that iSPEKS is not yet fully functioning.

Table 2: Status of Accrual and MPSAS Implementation

| | | Frequency (%) | | |
|------|--|---------------|----------------------------|----------|
| | | Agree | Neither Agree nor Disagree | Disagree |
| i. | Computerised accounting system/iSPEKS is fully functioning | 63.9 | 21.1 | 14.9 |
| ii. | All relevant staff can use the computerised accounting system/iSPEKS | 76.1 | 12.9 | 10.9 |
| iii. | Overall, accrual accounting has been fully implemented at the state government | 48.3 | 23.1 | 28.6 |
| iv. | Overall, MPSAS have been fully adopted at the state government | 54.5 | 21.8 | 23.8 |

N= 147. Total is not 100% due to rounding errors

Source: Survey Data

This is confirmed through interviews in which the respondents explained that those that have recently started, they must ensure that the new system is able to generate the cash-based financial statements to be tabled in the State Legislative Assembly. Besides, accrual-based statements are only required one year after the implementation by the federal government. 76.1% of the respondents indicated that all relevant staff could use the system, which is very encouraging. Since the training on the use of the system is still ongoing, it is expected that the percentage of those that can use the system will increase in the future. Overall, less than half (48.3%) indicated that accrual accounting had been fully implemented, while 54.5% of the respondents indicated that MPSAS had been fully implemented.

Based on the recommended prerequisites for successful adoption of accrual accounting, the readiness factors were surveyed, and the findings are presented in the **Table 3** below. Overall, readiness on all the five prerequisites is 4.03 on a 5-point Likert scale, which indicates a high level of readiness. All the factors - infrastructure, training, system and leadership fetched a mean greater than 4, while only staff fetched a 3.48 mean. Thus, almost all factors that are prerequisites to the successful implementation of accrual accounting are almost perfect, except for staffing, which still requires slight improvement.

Table 3: Descriptive Statistics for Organizational Readiness

| | Min-Max | Mean | Standard Deviation |
|------------------------------------|---------|------|--------------------|
| Infrastructure | 1.33-5 | 4.04 | 0.76 |
| Staff | 1.00-5 | 3.48 | 0.95 |
| Training | 2.75-5 | 4.10 | 0.58 |
| System | 3.00-5 | 4.15 | 0.57 |
| Leadership | 2.00-5 | 4.12 | 0.74 |
| Organisational readiness (overall) | 2.12-5 | 4.03 | 0.53 |

N= 147

Source: Survey Data

Various studies conducted by accounting professional bodies, academia, and governments, have highlighted factors influencing the implementation of IPSAS. Adapting the factors introduced by Abu Haija et al. (2021) on Jordan's experience, this study surveyed factors of training, guidelines and legislation, infrastructure, external support and stakeholder engagement to discover employees' perception of the factors and how they influenced them. **Table 4** presents the findings on training aspects.

Table 4: Training

| | | Frequency (%) | | |
|------|--|---------------|----------------------------|----------|
| | | Agree | Neither Agree nor Disagree | Disagree |
| i. | Training in MPSAS is needed to enable the staff understand the standards | 95.9 | 4.1 | - |
| ii. | Staff are kept updated regarding the MPSAS | 74.1 | 19.7 | 6.1 |
| iii. | The accounting and finance department comprises trained staff | 68.0 | 23.8 | 8.1 |
| iv. | The accounting and finance department get assistance from well-trained people in the implementation of MPSAS | 68.1 | 23.8 | 8.1 |

N= 147

Source: Survey Data

A high majority of respondents or 95.9%, agree that training in MPSAS is needed to enable staff to understand the accounting standards, and 74.1% agree that staff are kept updated on the MPSAS. Although they are kept updated on the MPSAS adoption, the level of understanding and ability to apply the standards to the government's accounting items are still insufficient. From the interviews, respondents expressed the need for skillsets, or skilled human resources. A majority of respondents or 68.0%, agree that the accounting and finance department comprises trained staff and 68.1% agree the department gets assistance from well-trained people in the MPSAS implementation. Many staff have attended more than one training since the beginning of the accrual accounting implementation agenda for the initial target implementation of 2015 at the federal government.

As the iSPEKS is not up and running until 2017, the knowledge seems to fade without actual application or trial run. With iSPEKS installed in 2017 and requirements to identify, evaluate and record assets, liabilities, expenses and revenues, accounting and finance staff realised the problems they are facing and the need for more training. Thus, during interviews as well as the open-ended responses from questionnaire surveys, many have indicated the need for training on MPSAS to refresh and the critical need for skilled accounting staff. Training also shall include support staff because their appointment at state governments comes from various levels, especially those without exposure to accounting or MPSAS.

Respondents also highlighted the need for continuous training, suited to current needs and which should also include troubleshooting. Interview responses also indicated that state

governments with more skilled staff, including accounting-trained head of treasurer appear to fare better in implementing MPSAS through iSPEKS.

Table 5 is on the guideline and regulations supporting the implementation of MPSAS. The majority of respondents agree to having a clear road map for adopting MPSAS (73.3%) and availability of periodical reports, including the completion stage of MPSAS implementation (60.6%). The intention to adopt accrual accounting has been communicated since 2000, when an awareness campaign, training and planning have also been initiated.

Table 5: Guidelines and Legislation

| | | Frequency (%) | | |
|------|---|---------------|----------------------------|----------|
| | | Agree | Neither Agree nor Disagree | Disagree |
| i. | Related parties had a clear road map, including all steps and procedures for adopting MPSAS | 73.3 | 25.2 | 5.5 |
| ii. | Related parties issued a periodical report which includes the stage of completion of MPSAS implementation | 60.6 | 29.3 | 10.2 |
| iii. | Related parties corrected and mitigated the deviations in the adoption process for MPSAS | 66.0 | 27.2 | 6.8 |
| iv. | Related parties issued a periodical report including the deviations | 57.2 | 34.7 | 8.2 |
| v. | State government has statutory enactment to adopt MPSAS | 65.3 | 29.3 | 5.4 |

N= 147

Source: Survey Data

Various circulars instructing on the move towards accrual accounting, training of staff and securing the infrastructure were made to accommodate the change of accounting system. Thus, there is no doubt why the majority feels the road map, guidelines and regulations are clear. The initial target implementation in 2016 (a year after the Federal Government’s 2015) has been moved several times, where now is set to 2023, has also rang a loud bell and pushed accounting staff to be ever ready. Although the legislation has not been mandated for presenting MPSAS-based financial reports, all state governments have prepared themselves via the accounting system,iSPEKS. The system is developed for MPSAS but allows for concurrently generating modified cash-based reports. Thus, it is worth noting that the MPSAS has been implemented by the state governments gradually since the iSPEKS was introduced in 2017. This also allows state governments ample time to prepare themselves for reporting using MPSAS when the time comes. Having iSPEKS up and running also allows state governments to spot issues with the system and take remedial action evidenced in the majority agreement with the deviations in the MPSAS adoption process being corrected and mitigated (66%) and periodical reports, including the deviations, are available (57.2%).

All state governments in Malaysia are subject to the Financial Procedures Act 1957, thus there is no need to amend any laws or enactment at the state level regarding the implementation of MPSAS. The majority of the respondents, 65.3%, agreed that the state government has statutory enactment to adopt MPSAS, except for some confusion with the unavailability of laws enacted on the reporting of financial affairs using MPSAS. Currently, the financial reports are produced on a modified cash basis. Interviews revealed that some states have started to print reports on accrual-based for internal uses as well as to confirm the accuracy of double entries.

Nevertheless, several states such as Pahang, Kelantan, Terengganu, Melaka and Sarawak are quite behind in the running of iSPEKS (its own accrual-based system in the case of Sarawak). Sarawak has not experimented with the accrual accounting system as their software is still in the development stage. While Pahang, Kelantan, Terengganu and Melaka only installed their iSPEKS in 2021. Johor and Perlis were pioneers with the iSPEKS from 2017, while many other states began in early 2020. Though it started a little later than the piloted states, Selangor and Penang showed advanced development where they have already produced financial reports using MPSAS for internal usage although it is not required yet.

Table 6: Infrastructure

| | | Frequency (%) | | |
|------|--|---------------|----------------------------|----------|
| | | Agree | Neither Agree nor Disagree | Disagree |
| i. | This organization has sufficient hardware and software to implement MPSAS | 81.6 | 16.3 | 2.1 |
| ii. | This organization has sufficient internal networks to facilitate the adoption of MPSAS | 81.7 | 17 | 1.4 |
| iii. | This organization has sufficient external networks with the AG office to facilitate the adoption of MPSAS. | 65.3 | 28.6 | 6.1 |
| iv. | The computerised accounting systems are continuously updated to comply with the requirements of MPSAS implementation | 68.7 | 25.2 | 6.1 |
| v. | The accounting records and information are adjusted to comply with MPSAS implementation | 73.4 | 21.1 | 5.4 |

N= 147

Source: Survey Data

Table 6 is on infrastructure available to support MPSAS implementation which is mainly about the computer hardware and software. The majority agreed that the hardware and software are sufficient (81.6%). Responses from interviews also indicate that these aspects are adequate, except that some of the hardware needs replacement as it becomes obsolete. During the early announcements of accrual accounting implementation, departments and units were asked to conduct gap analysis identifying their needs and subsequently obtaining the facilities.

Sufficient internal networks to facilitate MPSAS adoption also recorded a majority agreement of 81.7%, while external networks recorded a slightly lower majority of 65.3%. Interviewees mentioned that they do have problems with the system and networks during the early days of usage, but many of the issues have been solved while they were experimenting with it and the system is very much better now. Some states that adopted iSPEKS later enjoyed the privileges of having fewer issues compared to the pilot states. Respondents also suggested a post-mortem be done to evaluate the system and take remedial action.

A majority also agreed that iSPEKS are continuously updated to comply with requirements (68.7%) as well as the accounting records and information are adjusted to comply with MPSAS implementation (73.4%). Respondents also wrote about the challenge of getting the accounting data correct due to a lack of comprehension towards MPSAS. Nevertheless, it was resolved through communication with other state governments with experience or feedback from the AGD office itself. Though some respondents mentioned the challenges of having different accounting software at state governments, the iSPEKS, while at federal government iGFMAS.

Table 7 is on the external support. A majority agreed that they cooperate with external experts to help in MPSAS adoption (68.7%) and to train their employees on MPSAS implementation (64.6%). They also collaborate with professional bodies to help them understand and apply MPSAS (62.6%) as well as recruits well qualified people to help the employees understand and apply MPSAS (61.2%). Although it is not yet optimum, engaging experts and professionals to help with MPSAS has been done continuously. Interviewees also express the need for MPSAS experts to help them train their employees.

Table 7: External Support

| | | Frequency (%) | | |
|------|---|---------------|----------------------------|----------|
| | | Agree | Neither Agree nor Disagree | Disagree |
| i. | This organisation cooperates with external experts to help in MPSAS adoption | 68.7 | 27.2 | 4.1 |
| ii. | This organisation cooperates with external experts to train the employees on MPSAS implementation | 64.6 | 30.6 | 4.8 |
| iii. | This organisation cooperates with professional bodies to help the employees to understand and apply MPSAS | 62.6 | 32.7 | 4.8 |
| iv. | This organisation recruits well-qualified people to help the employees to understand and apply MPSAS | 61.2 | 34 | 4.8 |

N= 147

Source: Survey Data

Table 8 is on stakeholder engagement. A majority agreed that the top management has clear objectives and strategies (71.4%), seek to promote the concept and importance of

transforming to MPSAS (71.4%) and mitigates the obstacles of the transformation (73.4%). The majority of the state governments, were proactive towards MPSAS and eager to use its reports. Many of the heads of treasury and accountants are very committed to implementing MPSAS which has also motivated other staff as well.

Table 8: Stakeholder Engagement

| | | Frequency (%) | | |
|------|--|---------------|----------------------------|----------|
| | | Agree | Neither Agree nor Disagree | Disagree |
| i. | Top management has clear objectives and strategies for MPSAS implementation | 71.4 | 25.2 | 3.4 |
| ii. | Top management and related parties seek to promote the concept and importance of transforming to MPSAS | 71.4 | 23.8 | 4.8 |
| iii. | Top management and related parties mitigate the obstacles of transforming to MPSAS | 73.4 | 23.1 | 3.4 |
| iv. | The application of MPSAS requires delegation of authority to use professional judgement in adopting MPSAS | 61.9 | 30.6 | 7.5 |
| v. | Top management and related parties lead the transformation of organisational culture in line with the requirements of MPSAS | 71.4 | 25.9 | 2.8 |
| vi. | Top management and related parties seek to amend the local legislation in line with the requirements of MPSAS implementation | 61.2 | 32.7 | 6.1 |

N= 147

Source: Survey Data

The majority also agreed on delegation of authority to use professional judgement in adopting MPSAS (61.9%) and highlighted concerns over the insufficient skilled staff to do so. A majority (71.4%) agreed that the top management and related parties lead the transformation of organisational culture towards adopting MPSAS. A slightly lower majority agree (61.2%) on the amendment of local legislation. Interviews confirmed that state governments do not have to amend any state laws for the implementation, as the FPA has stipulated that the state governments will follow the federal government.

Some respondents wrote about the need to have clear policies for adopting MPSAS at the state governments and the importance of having a monitoring unit to oversee the adoption and provide feedback.

In summary, **Table 9** shows the overall mean and standard deviations for all factors elaborated above. The mean is closer to 4, indicating agreement with all the factors, strengthened by the standard deviation below 1. Therefore, it can be said that training, guidance and rule, infrastructure, external support and top management as well as stakeholders' involvement are crucial in encouraging the adoption of the MPSAS.

Table 9: Mean Analysis: Overall Factors

| | Min-Max | Mean | Standard Deviation |
|--|---------|------|--------------------|
| Training | 2-5 | 4.01 | 0.64 |
| Guidance and rule | 1.8-5 | 3.72 | 0.76 |
| Infrastructure | 1-5 | 3.91 | 0.70 |
| External support | 1-5 | 3.79 | 0.79 |
| Top management and stakeholders' involvement | 1-5 | 3.83 | 0.75 |

N= 147

Source: Survey Data

Respondents were also asked their perception of the benefit of adopting MPSAS accrual accounting. **Table 10** presents the frequency of statements about the benefits of MPSAS adoption. This section recorded high agreement on all statements. A large majority agreed with MPSAS's ability to help state governments produce more comprehensive financial reports for users (89.1%), as well as promote transparency and accountability in financial reporting (89.1%).

Table 10: Benefits of MPSAS

| | Frequency (%) | | |
|---|---------------|----------------------------|----------|
| | Agree | Neither Agree nor Disagree | Disagree |
| The transition to MPSAS helps the state government to produce more comprehensive financial reports for the financial statements users | 89.1 | 10.9 | - |
| The transition to MPSAS promotes transparency and accountability in financial reporting | 89.1 | 10.9 | - |
| Using MPSAS provides detailed information on the assets and liabilities of the state government. | 87.7 | 12.2 | - |
| Using MPSAS helps the state government to improve the performance evaluation of each unit and department. | 84.3 | 14.3 | 1.4 |
| The transition to MPSAS helps the state government to improve the performance comparison of each unit and department. | 86.4 | 12.9 | 0.7 |
| The transition to MPSAS helps the state government to improve the cost control of each unit and department. | 85.7 | 13.6 | 0.7 |
| The transition to MPSAS helps the state government to obtain financial information of each unit and department much faster. | 81.6 | 17 | 1.4 |

| | Frequency (%) | | |
|---|---------------|----------------------------|----------|
| | Agree | Neither Agree nor Disagree | Disagree |
| The transition to MPSAS helps the state government to obtain financial information of each unit and department much easier. | 83 | 16.3 | 0.7 |
| The transition to MPSAS helps the state government to obtain feedback on the performance of each unit and department. | 82.3 | 17 | 0.7 |
| The transition to MPSAS boosts the confidence of investors in the state government's economic performance | 82 | 16.3 | 0.7 |
| The transition to MPSAS helps the state government to reduce the risks of bribery and fraud in the state government. | 78.2 | 20.4 | 1.4 |

N = 147

Source: Survey Data

Higher agreement on using MPSAS provides detailed information on assets and liabilities (87.7%), improve performance evaluation of each unit and department (84.3%), improve performance comparison of each unit and department (86.4%), improve cost control of each unit and department (85.7%), speed up (81.6%) and ease the process of obtaining information (83%). 82.3% agree that MPSAS helps the state government to obtain feedback on the performance of each unit and department as before MPSAS data was diluted across departments and units. 82% also agreed that MPSAS boosts investors' confidence in the state government's economic performance and supports the state government in reducing the risks of bribery and fraud (78.2%).

In the questionnaire survey, respondents were also asked to write about the main challenges they have in adopting MPSAS. Many have responded the main challenge being having to understand and apply MPSAS without proper training, training was held years earlier, which seems not very relevant at the present time, limited staff as well as lack of skill and knowledge, lack of guidance in determining the coding for accounting items and unavailability of data for old assets. Some commented about top management's lack of commitment, which imposed all financial responsibilities on irrelevant staff. Respondents suggested a top-down approach from management to ensure full commitment at the working level, implementation by phases and provide a special portal guiding the adoption of MPSAS, such as to identify coding of accounts for MPSAS.

Table 11: Mean Analysis: Benefits of MPSAS

| | Min-Max | Mean | Standard Deviation |
|-------------------|---------|------|--------------------|
| Benefits of MPSAS | 3-5 | 4.27 | 0.65 |

N= 147

Source: Survey Data

In summary, Table 11 shows the overall mean and standard deviations for all the statements on the benefits of MPSAS. The mean is 4.27 and a standard deviation of 0.65, indicating high agreement on all statements about the benefits of MPSAS. It can be concluded that respondents did not doubt the benefits that will be derived from the adoption of MPSAS as compared to the cash-based accounting system.

Conclusions

This study focuses on the status, issues and challenges of state governments in Malaysia in implementing MPSAS. The results show that all state governments have started using accrual accounting via the MPSAS embedded computerised accounting system developed by the AGD, namely iSPEKS (except for Sabah and Sarawak, which developed their own accounting system). Although initially there were many issues related to the computerised system, through time, Bahagian Khidmat Perunding (BKP) and the vendor managed to solve most of the issues and users have been using the iSPEKS satisfactorily.

With respect to MPSAS adoption, most interviewees agreed that the most critical success factor is staff skill, followed by teamwork and commitment among the staff in the accounting and finance department, top management support and encouragement, frequent refresher courses on MPSAS and adequate infrastructure support. The findings from the questionnaire survey showed that training, infrastructure and top management support are important factors in ensuring the successful implementation of MPSAS.

The postponement of mandatory reporting based on accrual and MPSAS and uncertainty of the exact implementation date have caused fatigue among the accounting staff. Staff who have been trained before would need to be retrained after several years. In addition, the implementation of accrual accounting by state governments is challenged by insufficient qualified accounting staff. Furthermore, the practice of rotation of accounting staff every 3-5 years has added to the difficulty in fulfilling the necessary skill requirements at each state government.

In view of the above, the following recommendations are proposed. The state governments should have well-planned training programs to improve the skills of not just the accounting staff but also all support staff and to ensure sufficient numbers of staff are available at the state governments. In addition, there should be well-planned programmes to address reform fatigue effectively. Issues regarding the adoption of MPSAS are almost similar at all government levels, including the state governments. Accounting and finance staff are facing similar issues of recognising the accounting items or coding. Thus, having specific guidelines using diagrams for step-by-step instructions on aspects of MPSAS would be very helpful. The guidelines or frequently asked questions (FAQ) can be placed on a website for ease of reference. This could also overcome the lack of expertise to refer to when needed.

This study contributes to the body of knowledge by filling in the gap in the literature on a study focusing on state governments in Malaysia while relating to experience in other countries. It provides evidence that the factors influencing the successful implementation of accrual accounting and the accrual-based accounting standards are similar at any level of government. This will be a good lesson for the implementers of accrual accounting in the public sector. This study also put forth several recommendations based on its findings which can help state governments consider remedial measures. The findings and recommendations also help the AGD further strengthen its strategies to support the implementation of MPSAS at various government levels.

Given the short time span for this study and the COVID-19 pandemic, the best alternative to distribute a questionnaire survey is online via a google form. However, the researcher cannot determine whether the right person is answering the survey. Respondents for the survey, though comprising all accounting and finance staff, come from several levels and backgrounds and may have different comprehension of the questions distributed. Interviews have helped a great deal to further understand the issues faced by state governments in the implementation of MPSAS.

Future research should consider users of the accrual-based financial reporting, views of the parliament and state legislative assembly members and comparative study between federal and state governments.

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