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FINANCIAL MANAGEMENT IN THE MALAYSIAN PUBLIC SECTOR: THE DYNAMICS OF ACCRUAL ACCOUNTING IN TWO HYBRID STATUTORY BODIES' ADMINISTRATIONS

ZUBIR AZHAR
K. KISHAN
ERVINA ALFAN

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Authors:
Zubir Azhar
K.Kishan
Ervina Alfan

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ZUBIR AZHAR
K. KISHAN
School of Management
Universiti Sains Malaysia
11800 USM, Penang
Malaysia

ERVINA ALFAN
Fakulti Perniagaan dan Ekonomi
Universiti Malaya
50603 Kuala Lumpur
Malaysia

ABSTRACT

The Malaysian Federal Government introduced the need for government ministries and agencies, including statutory bodies, to formalise the adoption of the Malaysian Public Sector Accounting Standards (MPSAS). However, certain statutory bodies found adopting MPSAS impractical and challenging due to their hybrid nature of having the responsibilities and business interests of both the public and private sectors. Addressing that, the current study explored the experiences of two prominent statutory bodies, anonymised as Alpha and Omega, in implementing accrual accounting and the challenges faced in their efforts to implement MPSAS fully. In particular, this qualitative study explored the reporting system and accounting standards used by Alpha and Omega, the extent of their accounting practices accommodating or conflicting with MPSAS, challenges in complying with MPSAS, and strategic direction regarding the adoption of MPSAS. A comparative case study approach from the institutional logics perspective was employed, which involved secondary data collection and analysis and a series of focus group discussions and semi-structured interviews with key actors involved in implementing accrual accounting in Alpha and Omega. The obtained findings revealed the use of Malaysian Financial Reporting Standards (MFRS) for both statutory bodies due to the need of their business subsidiaries to prepare financial statements in accordance with the requirements of MFRS. Furthermore, the challenges in preparing consolidated financial statements and the suitability of MFRS for their operational business needs contributed to the preference of both Alpha and Omega to continue using MFRS instead of MPSAS. Nonetheless, due to the isomorphic compulsion to adopt MPSAS, these two statutory bodies devised strategies to cope with the transition and remain hopeful of maintaining the status quo.

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CHAPTER 1: INTRODUCTION

The financial management and reporting areas in the Malaysian public administration have undergone some major changes. These changes can be proxied to the Malaysian government's endeavours to address control and accountability issues. One of the endeavours concerns accrual accounting. In the international arena, the move towards the adoption of accrual accounting is apparent, as many nations around the globe have embraced the New Public Management (NPM) approach to managing their respective public sector. The call for reforms in the administration of the public sector, urging that the public sector is managed more like the private sector, has been proclaimed in the last decades. The assertion has recently gained more prominence internationally due to the intense pressure exerted by the public sector reform, advocating for public entities to adopt an accrual accounting system. Interestingly, this idea of adopting accrual accounting is not only directed towards business enterprises that immerse themselves in commercial activities but also towards various organisations in the public sector that have no "bottom line" or balance sheet.

Despite numerous improvements following the reforms, studies have argued the inappropriateness of the accrual accounting concept for organisations in the public sector (Carlin, 2005). This is based on the argument that accrual accounting connotes the idea that government entities are seen to operate like business entities, but these organisations do not operate in that manner (Guthrie, 1998; Bruno & Lapsley, 2018). There is also another argument that opposes the idea of adopting accrual accounting in the public sector based because accrual accounting is capable of distorting the nature of accounting measurements given the complexity of certain measurements. All these aspects have significant potential of influencing financial management practices in the public sector.

The introduction of accrual accounting in the public sector was first formalised following the establishment of the authoritative requirements of International Public Sector Accounting Standards (IPSAS) by the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC). Accordingly, IPSAS are based on international accounting standards by specific international organisations like the European Union (EU), North Atlantic Treaty Organization (NATO), and the Economic Co-operation and Development (OECD), as well as countries like Australia and South Africa. Broadly speaking, IPSAS focus on matters regarding the financial statements of related organisations and countries.

According to Hoque et al. (2004), the adoption of accrual accounting in the public sector, in general, has been centred around the need to enhance efficiency, effectiveness, and accountability and to improve costing capability involving programmes and services provided by the government (see also Christensen & Parker, 2010; Ferry et al., 2018). There may be a wide scope of literature that presents arguments for and against the idea of adopting accrual accounting in the public sector. For instance, Chan (2003) highlighted that the issues of accrual accounting are substantially cantered on the notion of accountability. The study contended that efforts should be directed to improve the implementation of a better accounting approach—

in this case, accrual accounting that emphasises financial management framework, which encompasses financial resources, decision-making, accountability, and governance.

The global trends of adopting accrual accounting in the public sector have shown increasing concerns about the need to comply with specific rules and regulations, particularly spending limits and accountability for cash flows and balances (Guthrie, 1998). Indeed, the performance of the public sector has given much emphasis on not only the "outputs", "efficiency", "results", and "outcomes" of programmes and activities but also on holding managers who are accountable for the "full cost" of the operations, consideration of "long-term obligations", and overall "financial position". These developments are attributed to an understanding that accrual accounting, within the context of the public sector, can provide an accurate assessment of the full cost of service provision and serves as a performance indicator of whether a programme or an activity is efficient. Such development is not exceptional in Malaysia, which is attuned to this global trend.

Focusing on the Malaysian public sector context, the Malaysian government has advocated using reporting systems (or standards) modelled on accrual accounting by adopting Malaysian Public Sector Accounting Standards (MPSAS). Interestingly, Malaysia's plan to shift towards adopting accrual accounting has met with certain challenges, and the adoption of MPSAS by the government entities is yet to be universal. Malaysia's experience in adopting accrual accounting has met with a series of postponements for various reasons, such as the public sector essentially focuses on spending income on public outlays using tax revenues. Besides that, the financial result is largely irrelevant as the focus is on the social outcome achieved through public expenditure. Cash accounting is also still perceived as necessary for macroeconomic analyses. Nevertheless, the shift towards adopting accrual accounting is deemed important since it is expected to lead to a more efficient government, particularly in financial management.

Although accrual accounting has been developed for private enterprises with commercial business objectives and used as a measure to evaluate efficiency, its application in the public sector should be seen as an initiative to improve the quality of financial reporting and its transparency. Despite the debate on the use of accrual accounting within the public sector questioning the appropriateness of accrual accounting for the public sector, IPSAS has exerted pressure on these organisations to adopt the system for various reasons highlighted above. Despite the development of accrual accounting and its wide-ranging implications on the role and functioning of organisations in the public sector, there have been comparatively limited studies on its application and consequences at different levels of the government. With that, the current study aimed to present significant insights into how the introduction of accrual accounting can be a driver to enhance the financial management and accountability of the public sector.

The implementation of accrual accounting in the public sector has long been part of the academic discourse in the international context, particularly in the case of developed countries. The move towards adopting accrual accounting has been driven by the strong urge to achieve greater transparency and better reporting in the public sector, which is hoped to penultimately result in better public service delivery and enhanced performance of the public sector. Despite the inherent discussion in the academic arena, the move towards the use of accrual accounting has been taken up in varying degrees by governments globally.

Considering that the public sector in a country is subjected to the country's respective law and legal pronouncement, it is critical to note that the experiences in implementing accrual accounting by other countries need to be understood within the context of the public sector's respective structure and legal framework. From the theoretical and contextual viewpoints, this study discussed the context of statutory bodies' settings and legal requirements, specifically noting the experiences of countries outside Malaysia. Considering the country's valuable experiences of implementing accrual accounting, this study also reviewed the findings of related prior studies on relevant public sector issues to gauge the overall importance and significance of these pertinent matters. The organisational settings of two statutory bodies, Alpha and Omega, were explicitly discussed in this study.

The specific objectives of this study are presented as follows:

1. To examine the reporting system and/or accounting standards adopted by Alpha and Omega and why the system and/or standards are adopted.
2. To examine the extent of Alpha's and Omega's accounting practices accommodating or conflicting with the accrual accounting convention of MPSAS as the government desires.
3. To identify the challenges faced by Alpha and Omega in complying with MPSAS.
4. To assess Alpha's and Omega's strategic direction to adopt MPSAS.
5. To identify possible strategies that can be deployed by other agencies at different levels (e.g., state and local governments).

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

The implementation of accrual accounting globally has occurred at different levels and paces. This also implies that contextual factors, which include legal pronouncements, contribute towards varying levels of implementation. As the public sector is subjected to specific guidelines and directives issued by the government, it is imperative to note that the government's guidance and directives issued to the public sector and statutory bodies can influence the extent of implementation of accrual accounting in the respective stages. The differences attributed to the accrual accounting implementation stages may also emerge since different statutory bodies encounter different challenges in implementing accrual accounting. With that, this chapter explores the challenges of implementing accrual accounting in both international and Malaysian contexts.

Challenges are not the only pertinent issues related to implementing accrual accounting within the public sector context. Considering that accrual accounting lies at the centre of governmental departments, agencies, and bodies tightly linked to the operationalisation of the government's social and public services agenda, it is critical to review whether accrual accounting fits the objectives of the organisations in concern. This is even more so critical in the "hybrid" type of governmental organisations that are operated as business units and simultaneously subjected to fulfilling the socio-economic agenda due to their status as a "governmental agency". This chapter also explores the experiences of "quasi" or "hybrid" forms of for-profit governmental organisations globally regarding their accounting practices.

This chapter is structured as follows. Section 2.2 focuses on NPM and public sector accounting, while Section 2.3 discusses IPSAS. Section 2.4 reviews accounting in "hybrid" government organisations, and Section 2.5 elaborates on the adoption of accrual accounting in the Malaysian public sector. Section 2.6 outlines the challenges of implementing accrual accounting in the public sector. Section 2.7 provides a discourse on the non-adoption of IPSAS in Finland. The chapter ends with a discussion on the theoretical underpinnings of accrual accounting for public sector research (Section 2.8).

2.2 New Public Management (NPM) and Public Sector Accounting

The NPM paradigm significantly impacts accounting practices in the public sector (Hood, 1991; 1995), as it promotes changes across a range of issues and considers various factors, including culture, goals and performance, and organisational and market capabilities. NPM discusses the need for efficiency, effectiveness, transparency, and accountability in the public sector (Hodges & Mellet, 2003). The adoption of accrual accounting is one of the reforms under NPM, which is expected to provide more information for better decision-making (Hyndman & Conolly, 2011).

Accrual reporting provides a complete view of a government's financial situation, which contributes to the transparency of public spending, accountability of public officials, and proper planning for future liabilities. With the aim to enhance the performance of the public sector, the remarkable move towards the adoption of accrual accounting in the public sector gained momentum during the late 1990s, along with the public sector reform brought by the idea of NPM (Yapa & Ukwatte, 2015; Hyndman, 2016). NPM has stressed the private-style managerial practices in the public sector, as well as the accountability of the public sector in terms of efficiency and results, where accrual accounting is believed to be an effective tool to support NPM reforms (Hood,1995; Hyndman, 2016).

Among the developed countries, New Zealand and Australia are often used as the reference for the experience of adopting comprehensive accrual accounting in the public sector, with New Zealand as the first country to fully adopt an accrual accounting system for its public sector (Pallot & Ball, 1996). In New Zealand, the metamorphosed change in public administration reforms when the government of New Zealand changed its budgeting process into output-based systems (Champoux, 2006) started in 1984 due to the economic crisis (Ouda, 2005). The introduction of NPM reforms included the establishment of privatisation and corporatisation of government-owned businesses, as well as the implementation of modern managerial techniques to strengthen the performance and accountability of public commercial businesses. The country's Public Financial Act implemented accrual-based performance assessments to strengthen accrual accounting in reporting and budgeting. Following that, New Zealand tabled the very first comprehensive financial statements based on accrual accounting in 1992 (Pallot & Ball, 1996). In 1994, the government was required to express fiscal strategy and report the progress of accrual accounting under the Fiscal Responsibility Act. Since then, accrual accounting has remained dominant in budgeting and financial reporting in New Zealand (Champoux, 2006).

On the other hand, in the efforts of pursuing the adoption of accrual accounting, Australia took more modest initiatives than those of New Zealand. Back in 1976, the call for action on improved accountability, management, and performance evaluations in the Australian public sector initiated the implementation of accrual accounting (Davis, 2010). The pressure to achieve government efficiency and fiscal performance and the introduction of a government management system based on performance evaluations under the Financial Management and Accountability Act of 1997 propelled the beginning of accrual principles on budgeting, reporting, and accounting in Australia (Champoux, 2006).

There has been a significant increase in governments switching from pure cash accounting to accrual accounting in recent decades. According to, Flynn, Moretti, and Cavanagh (2016), in 2015, 21% of total countries adopted accrual accounting, while most countries (57%) opted for pure cash accounting. However, referring to the Technical Notes and Manual published by International Monetary Fund in 2016, the time needed to implement accrual accounting in the public sector is significantly different, depending on each country's conditions (see Flynn et al., 2016). For example, the transition may take up to three years (for New Zealand) or five years (for France and Austria). Meanwhile, the United Kingdom and Peru took more than ten years to undergo the transition of implementing accrual accounting for the whole public sector.

Evidently, many countries have switched from cash accounting to accrual accounting because it facilitates more effective and efficient fiscal management (Irvine, 2011). Accrual accounting helps ensure public sector management's transparency, accountability, effectiveness, and efficiency (Likierman, 2000; Lapsley & Oldfield, 2001; Lye et al., 2005). Numerous prior studies found that accrual accounting can enhance the transparency of resource consumption by giving a true view and standardised representation of the public sector's budgets on finances, assets, and risk (Yamamoto, 1999; Peter van der Hoek, 2005). Certain countries, including New Zealand, Australia, and the United Kingdom, made efforts to improve the efficiency of their governmental accounting systems by reforming their accounting systems from cash accounting to accrual accounting systems. These changes have helped governments to evaluate the financial position of an organisation by acquiring better information, such as how the organisation manages its resources and the cost of supplying goods and services and enhances the cash flow statement and other financial information (Arnaboldi & Lapsley, 2009; Lapsley et al., 2009). This accounting practice ensures more economical use of public resources and efficient communication with stakeholders, which help to improve the decision-making process (Lapsley et al., 2009) and the comparability across public sectors and countries (Gårseth-Nesbakk, 2011; IFAC, 2014).

2.3 International Public Sector Accounting Standards (IPSAS)

Governments and other public sectors globally benefit from the high-quality financial reporting guidance IPSAS provides, resulting in better consistency and transparency. IPSAS is designed to minimise gaps in countries that use generally accepted domestic accounting principles and increase financial information's comparability globally (Aggestam-Pontoppidan & Andernack, 2016). Moreover, implementing IPSAS promotes financial transaction transparency and improves accountability (Gómez-Villegas, Brusca, & Bergmann, 2020). This was supported by Zakiah and Pendlebury (2006)—the study stated that the International Public Sector Accounting Standards Board (IPSASB) strongly encourages the implementation of accrual accounting by the Malaysian government through the development of IPSAS (see also Azhar, Alfan, Kishan & Assanah, 2022).

The development of IPSAS signifies the professional bodies' efforts to provide accounting tools for the government and public sector to apply high-quality and standardised financial reporting framework that enhances transparency and accountability in managing public funds. The primary objective of these standards is to ensure that financial statements are prepared using accrual accounting in accordance with the standards, which contains high-quality information that provides transparency—this serves as a good starting point for accounting—regardless of the prior basis of accounting before the date of adoption; it can be produced at a cost that is not greater than the benefits.

Prior studies highlighted similar views on how IPSAS can increase the comparability and transparency of financial information across the public sector (Brusca, Montesinos, & Chow, 2013) and provide a uniform basis for the financial statements (Schmidthuber et al., 2020). Rodríguez Bolívar and Galera (2016) discovered that fair value accounting under IPSAS can enhance the usefulness of the public sector's financial statements in monitoring public officers. This was found to be aligned with the findings reported by Tawiah (2022) on how adopting IPSAS provides a better presentation and understanding of the financial statements prepared by organisations in the public sector. These qualities would subsequently increase the governance quality (Schmidthuber et al., 2020) as they provide a clearer public image of government operations. Bakre, Lauwo, and McCartney (2017) also added that the governance quality in managing public resources could be improved as IPSAS increases the transparency and accountability of the public sector.

Financial transparency in the public sector can be improved by adopting international accounting standards, accrual accounting practices, and more general NPM. As a result, the quality of financial information in the decision-making process of users to support government policies can be enhanced, as the adoption of accrual accounting based on IPSAS enhances the operational and management's performance and provides information on public finances' long-term sustainability (PwC, 2013). In addition, Rodríguez Bolívar and Galera (2016) asserted the suitability of IPSAS with the recent fair value model of the financial instruments, which drew the government's interest to enhance the valuation of assets and liabilities.

2.4 Accounting in "Hybrid" Government Organisations

As the NPM movement has gradually changed the landscape of public sector organisations worldwide since the concept was first introduced, the agenda of "liberalising" the public sector from inefficiencies and financial woes has evolved into changing government organisations' forms. A "hybrid" government organisation is typically managed as a for-profit organisation, albeit in essence, it has a socio-economic objective and a public sector agenda to fulfil, which the overseeing respective ministries or government agencies impose. The essence of the practice in these organisations is shaped by its corresponding economic and social objective pursuits, which may give rise to apparent tensions between the stakeholders and the organisations' respective constituencies.

The difficulties in aligning the pursuit of a common interest may stem from the differences in viewpoints pertaining to understanding what "accounting" and "accountability" are about; the dilemma is not new. For instance, taking the case of "hybrid" hospital management in the United Kingdom, accounting is traditionally perceived as a main platform for denoting financial concerns, such as cost constraints and financial performance, but the operations of the hospitals are run by clinicians and medical practitioners who "[…]considered themselves accountable to themselves, and to their clinical judgment, not to a set of accounting practices and procedures" (Llewellyn & Northcott, 2005, p. 340). This leads to potential conflicts among the stakeholders and the organisations' constituencies, as the economic logic is deemed as unparallel to support the social obligations of the health practitioners whose services are critical to the public at large.

Correspondingly, it is vital to ascertain the avenues for subduing the conflicts by analysing the discourses between the stakeholders and constituencies. Essentially, discourse analytics between the stakeholders and constituencies provides insights into the conflicting nature of the economics and social logics and the extent to which accounting can be considered an appropriate channel to recognise these diverging interests. Referring to the case study of the Great Exhibition of the North (GEOTN) in the United Kingdom, Newcastle Gateshead Initiative, a hybrid organisation, it was found that the use of counter accounting may be perceived as an additional perspective in reporting and highlighting the issues of the marginalised constituencies (Ferry & Slack, 2022).

Ferry and Slack (2022) pointed out a critical issue that accounting purports to highlight the fundamental nature of the public sector's context. To sum up, at this juncture, it is useful to reiterate the concluding remarks by Bracci (2016)—it is timely to investigate how accounting is implicated in the operations of a hybrid organisation. Ascertaining how accounting functions internally and externally to sustain a hybrid organisation and fulfilling the accountability expectations pave the way to gaining insights on the critical role of accounting for a hybrid organisation.

2.5 Adoption of Accrual Accounting in the Malaysian Public Sector

Historically, the cash accounting system dominated the public sector in most countries. The trend of adopting accrual accounting started in many countries following the public administration reforms internationally (Hasan & Phang, 2012). Since the independence of Malaysia, the government applied cash accounting to record and report the federal government's financial transactions. However, the cash accounting system has its limitations, particularly when measuring the full cost of resources consumed (Saleh & Pendlebury, 2006). In 1974, cash accounting was replaced by modified cash accounting to obtain full cost information in line with the programme and performance budgeting systems (Saleh, Isa, & Hasan, 2012).

However, the modified cash accounting system, which recorded very limited information on assets and liabilities, has raised concerns about the negligence of asset-liability management (Saleh, Isa, & Hasan, 2012). Saleh (2008) highlighted that disclosing assets and liabilities can enhance the quality of financial reports. The efforts of adopting accrual accounting in Malaysia began during the 1990s when a group of officers from the Accountant General's Department of Malaysia was sent to Australia to understand the country's experience in adopting accrual accounting; however, the idea of adopting accrual accounting was not put in practice (Saleh, Isa, & Hasan, 2012). Before the transition to accrual accounting, the Federal Government of Malaysia implemented cash accounting based on IPSAS in 2005, which created a positive foundation to adopt accrual accounting (IFAC, 2013).

Following the debate encircling the need to enhance the public sector's financial performance transparency, the essence of the academic discussion is mainly directed towards the appropriateness of implementing accrual accounting in the public sector. Earlier discussions on accrual accounting broadly focused on the appropriateness and relevance of accrual accounting in reflecting the overall performance of the public sector. The discussion also focused on the inability of cash accounting to reflect the financial performance of the public sector, primarily since the fundamental tenet of cash accounting is based on the movement of cash rather than reflecting on the public sector's financial performance and financial position. As the discourse surrounding the appropriateness of cash accounting for the public sector grew, the development of the public sector's financial management was later expanded to the modified cash accounting system, in which the accrual accounting is used as the basis to record sales and expenses in items like long-term assets, while the cash accounting system is retained for items like short-term assets.

As governments worldwide join the collective efforts to enhance the transparency of public sector reporting, accrual accounting has become one of the most critical agendas for IPSASB. IPSASB strives to improve public sector reporting through the development of accounting standards for organisations in the public sector. Echoing the tone set by the IPSASB, Malaysia has also embarked on a similar path by introducing MPSAS for using government departments and agencies of the federal government. The development of MPSAS by the Accountant General's Department of Malaysia marked a new milestone in the history of financial reporting of departments and agencies of the Federal Government of Malaysia in 2013, where all financial statements have to be prepared in accordance with accrual accounting.

Additionally, in 2010, the Malaysian public sector accounting reform took place along with the introduction of the New Economic Model (NEM) launched by Malaysia's National Economic Advisory (NEAC) for the public sector transformation (NEAC, 2010; Saiban, 2020). With the goal of achieving Vision 2020, where Malaysia transforms into an advanced and developed nation with high-income, several Strategic Reform Initiatives (SRIs) are outlined under the NEM. One of the initiatives recommended the adoption of accrual accounting in the public sector to refine public sector accounting practices (Ahmad et al., 2013; Yusof & Jaafar, 2018). With that, accrual accounting principles in the public sector were finally mandated in 2011 and determined to be fully adopted in all federal ministries and departments by 2015 (Saiban, 2020).

Addressing the efforts to implement accrual accounting in the public sector effectively, two committees, namely Government Accounting Standards Advisory Committee (GASAC) and Accrual Accounting Steering Committee, were established with the objectives of overseeing and guiding the evolution and implementation of MPSAS, which was drawn from IPSAS with minor amendments to adapt to the Malaysian context (Accountant General's Department of Malaysia, 2013). The Ministry of Finance published a Treasury Circular at the beginning of 2013, which outlined the transition to accrual accounting. It described the inherent advantages, notably in presenting a thorough and accurate overview of the government's financial situation, which can increase the financial transparency and accountability of the public sector, resulting in improved public sector financial management (IFAC, 2013).

Unexpectedly, the implementation of accrual accounting was still in progress in 2015, and it was postponed from 2015 to 2018, indicating the need for more time to implement accrual accounting (Ismail, Siraj, & Baharim, 2018). The modified cash accounting system continued to be applied, while the Accountant General's Department of Malaysia employed the cash based IPSAS (Izma, 2018; Surendran, 2021). To support the successful transition to accrual accounting, a letter was delivered by the Ministry of Finance to all federal statutory bodies (FSBs) in 2016 to encourage the adoption of MPSAS in their financial reporting (Ramli, 2021).

2.6 Challenges of Implementing Accrual Accounting in the Public Sector

Despite the usefulness of adopting accrual accounting in the public sector, its implementation has several challenges. It remains undisputed that the journey to embrace accrual accounting in the FSBs would face a multitude of issues and challenges, such as the issues of recognition and valuation of assets and liabilities, as well as competency of human capital and cost to implement (Mahadi, Noordin, Mail, & Sariman, 2014). Apart from that, issues regarding accrual accounting practices in the public sector involve the difficulties of recognising, measuring, and disclosing property, plant, equipment, and heritage assets (Ismail, Abdullah, & Zainuddin, 2013; Basnan, Salleh, Ahmad, Harun, & Upawi, 2015). Another challenge associated with implementing accrual accounting concerns obtaining accurate opening balances for public assets, as Yatim and Norhashim (2016) pointed out. Furthermore, sophisticated technologies are required to implement an accrual accounting system in the public sector (Yusof & Jaafar, 2018). The following subsections discuss the challenges of implementing accrual accounting in the public sector in further detail.

2.6.1 Accounting for Assets

The development of MPSAS is anticipated to bring the accounting and reporting practices of the government and public sector to a level that is at par with the accounting and reporting practices of developed countries. Despite the efforts to embrace accrual accounting, replacing MPSAS on Malaysian Private Entities Reporting Standards (MPERS) has indisputably created tremendous issues and challenges at various levels.

The inherent differences in accounting principles between MPERS and MPSAS make the journey to accrual accounting adoption tougher for the Malaysian government. Generally, the major concern lies in the recognition and valuation issues. Accounting for heritage assets has remained a hot debate topic over the decades, especially pertaining to the issue of whether heritage items should be recognised as assets (Aversano & Christiaens, 2014; Basnan et al., 2015). Regarding this issue, Basnan et al. (2015) suggested that heritage assets should be recognised at fair value or historical cost, depending on which is practicable, and reported in financial statements to reflect the actual financial position of the government fairly.

Similar issues concern how fair value or historical cost is used for valuing biological assets. According to He, Wright, and Evans (2018), using fair value can make financial information unreliable due to the management discretion applied to valuation. Argilés-Bosch, Miarons, Garcia-Blandon, Benavente, and Ravenda (2018) argued that the valuation of biological assets is crucial for several reasons—for instance, it may affect cash flow prediction. Therefore, the use of fair value and historical cost may give rise to the issues of accuracy and certainty of the accounting information for biological assets.

Drawing from these two categories of assets, the valuation process can be challenging due to the lack of valuation guidance and mechanisms. Moreover, having a one-size-fits-all measurement technique is impossible, as the heritage and biological assets vary significantly in nature.

2.6.2 Readiness

Apart from that, the readiness of the personnel in the Malaysian public sector to adapt to the accrual accounting system is another issue. Noordin, Mahadi, Mail, and Sariman (2014) highlighted the significant resistance of employees towards change, especially those with more senior positions. The study indicated that most employees expressed concerns about whether the new accounting system would increase their workloads and cause difficulties. Besides that, Ismail et al. (2018) reported a change in the readiness of employees in the Malaysian public sector; they expressed readiness for the implementation of accrual accounting. Atan and Mohamed Yahya (2015) reported similar observations.

Reflecting on the development and implementation of accrual accounting in Malaysia, it is apparent that the Malaysian Government has taken immense steps and initiatives to ensure that the human capital is equipped with sufficient knowledge and technical skills to embrace the changes following the implementation of accrual accounting, such as organising various events like workshops, seminars, and training related to accrual accounting in the public sector (Yusof & Jaafar, 2018; Ismail et al., 2018).

The challenges of adopting accrual accounting in Malaysia may appear to ease over time, as evident from the results of prior studies. However, it is imperative to note that these challenges are still pertinent, mainly as there have been limited in-depth studies on the implementation of accrual accounting. This is particularly important considering that the public sector comprises the federal and state levels and the statutory bodies established under specific acts and legislations. Moreover, Azhar et al. (2022) highlighted the lack of studies on statutory bodies, whose structure and objective of establishment differ from the agencies and departments set up at the federal and state levels.

2.6.3 Professional, Software, and Technological Competencies

Despite the benefits of implementing accrual accounting in the public sector, various issues and challenges of implementing accrual accounting, such as legal concerns, lack of government assistance, lack of competent human resources, high employee turnover rate, inadequate investment in capital equipment, and incompatible IT systems, have been highlighted in various countries, such as Indonesia (Harun & Robinson, 2010), Fiji (Tickell, 2010), and Malaysia (PwC, 2013). However, these governments continue to implement accrual accounting, given the capability of the accounting convention in evaluating the performance of the public sector and controlling the government's expenditures.

Numerous prior studies argued that accrual accounting might provide misleading financial information that could lead to poor allocation of resources and investment decisions rather than enhancing the accuracy of the cost estimation (Carlin, 2005). For instance, the shortage of accounting expertise in Ghana and Nigeria to handle the full implementation of IPSAS in 2016 has delayed their process of migration. It is challenging to standardise the procedure since it takes time to fully train and equip employees with accounting skills to adjust to and familiarise themselves with the migration processes and systems. This would subsequently increase the administrative cost for the public sector since more financial management and accounting training are needed for the existing employees (Hepworth, 2003).

Apart from the competency of human resources, the success of adopting accrual accounting can be measured via software and technological competence, appropriate accounting principles and standards, and effective communication at the organisational level. IT plays a significant role in implementing accrual accounting, as its tools can efficiently provide information to users within an organisation (Bodnar & Hopwood, 2010). A few other prior studies analysed the relationship between IT and the application of IPSAS and concluded the significant influence of these technologies on the effectiveness and success of the implementation of IPSAS in the public sector.

Accordingly, the concept of competence comprises both technical and non-technical aspects, such as knowledge, skills, abilities, and talents, as well as the appropriateness of personal behaviour at the workplace and how it impacts the practice of the profession (Singh Dubey, Paul, & Tewari, 2022). Hence, competency is essential for professional accountants to conduct accounting practices (Harun et al., 2012), to avoid delays, and to minimise potential problems. The number of accounting-skilled employees and leadership decisions substantially impact the adoption of accrual accounting in the public sector. Valiki Fard and Nazari (2012) demonstrated the influence of managerial factors, human resources, rules and regulations, theoretical framework, and accountability culture on the adoption of accrual accounting. Employees familiar with cash accounting for financial reporting would be more likely to refuse to use new accounting practices (Nistor, Deaconu, & Severin, 2009). Therefore, specific measures have been taken to increase awareness of adopting accrual accounting among employees in the public sector.

Malaysia's Government Accounting Standards Advisory Committee (GASAC) is an initiative to examine the current laws, regulations, rules, and standards, conduct a gap fit study for efficient processes and technologies, and provide training for developing human resource capability. Monteiro and Gomes (2013) state that transforming an organisation's culture is the key to successfully implementing accrual accounting. The study discovered that the challenges of adopting accrual accounting could be overcome by gradually changing employees' negative opinions on new accounting practices. However, Saleh, Isa, and Hasan (2021) discovered the willingness of the federal government's employees in Malaysia to adjust to the changes. Meanwhile, Azmi and Mohamed (2014) conducted a case study in the Ministry of Education and concluded the willingness of employees to adjust to the changes in adopting accrual accounting. However, the study also found that these employees expressed major concerns about their qualifications and ability to implement the new system successfully. Nonetheless, there are favourable responses towards adopting new accounting practices in the federal government among employees.

2.7 Non-Adoption of IPSAS: Finland

Oulasvirta (2014) elaborated that the full implementation of accrual accounting depends on the public sector's income statement, reasonability, and accounting principles. However, Adhikari, Kuruppu, Wynne, and Ambalangodage (2015) and Yapa and Ukwatte (2015) revealed that implementing IPSAS does not improve transparency and accountability. For instance, the lack of accuracy in the government's usage of business-style accounting and the poor implementation of IPSAS among many countries may affect the governance (Oulasvirta, 2014; Bakre et al., 2017; Schmidthuber et al., 2020).

Finland and Germany are among the countries that have rejected IPSAS due to their concerns about fair valuation and arbitrary estimation. The experiences of Finland in not adopting IPSAS were deemed relevant to the current study. Such experiences are discussed in this section in detail.

The Finnish government has relied on accrual accounting since the 1990s following the infusion of the New Public Financial Management concept. In 1925, the valuation model in Finnish Accounting Acts was principally founded on historical cost. Financial reports were relatively well-established in the Finnish bookkeeping society. In the 1800s, the Finnish government attempted to improve the country's financial reporting quality by subscribing to certain accounting conventions in valuing assets, as the fair value method did not precisely measure up to the Finnish perspective (Oulasvirta, 2014). Although the rate of internationalisation was slowed down by experts who strongly supported the traditional Finnish accounting practices, the influence of foreign pressures was found unavoidable in Finnish financial reporting.

When accounting laws and practices are considered, financial reporting in Finland transitioned from a solely national model to a completely international one between 1973 and 2005. However, accounting professionals believe that Finnish accounting thought is still in flux and that the expenditure revenue theory remains an element of the Finnish accounting concept. Furthermore, arguments against this theory show that it has not been wholly abandoned, although it is no longer the foundation of Finnish accounting legislation (Pajunen, 2010).

2.7.1 Accrual Accounting Practices of the Public Sector in Finland

In contrast to Malaysia's three-level government structure, Finland adopts a two-level government structure comprising the state and municipal levels. Each municipality has separate economic, legal, and accounting entities, with autonomy or self-government over the state. According to the "funding principle", the state must ensure that municipalities can handle all statutory duties under their authority (Mattisson, Näsi, & Tagesson, 2004). The duties are separated so that the state enacts legislation that guarantees the public's fundamental rights to public services and provides financing through state grants to the municipalities. Municipalities are in charge of creating or, alternatively, delivering statutory public services.

The Finnish framework satisfies the budgetary information needs, in addition to the accrual-based financial information. The Finnish Government's accrual accounting contrasts with business accrual accounting, as it is directed rather differently. This is because the accrual accounting used in the public sector and government budgetary accounting are both stipulated in the budget law (Oulasvirta, 2014). The clauses for the private sector have been around for a very long time, but they cannot be massively transferred to the public sector. Certain unique issues arise as governments transition to provisioning. Governments have certain types of assets and liabilities that do not exist in the private sector, such as dealing with inheritance, military assets, infrastructure assets, and social security programmes (Blöndal, 2003).

Business systems like SAP and Oracle can be locally produced and designed specifically for entities and widely utilised international systems. Setting up shared service centres and establishing common platforms are becoming more popular among municipalities and federal governments to provide the management and other stakeholders with more standardised, cost-effective, and high-quality financial information (Ernst & Young, 2012). The expenditure-revenue theory was supported when the IAS standards were challenged during the changes in the private sector's accounting legislation back in 1992. This was further supported by Pirinen's (2005) study—the committee preferred to build its national reform on the technically oriented EU accounting directives rather than the IAS when Finland prepared to join the EU in 1995.

2.8 Theoretical Underpinnings of Accrual Accounting for Public Sector Research

Numerous theories have been utilised in accrual accounting for public sector research. For instance, the contingency model, which proposes that stimuli, such as financial scandals or fiscal stress, that influence the attitudes and behaviours of the producers of accounting information and users can lead to accounting innovation, has been used in several studies (Saleh & Pendlebury, 2006; Upping & Oliver, 2012). Studies have also used the agency theory to examine the interactions and tensions between the principal (government) and agent (civil servants) in the implementation of accrual accounting (Maimunah, 2016; Caruana & Zammit, 2019). The rational choice theory, which posits that politicians and administrations act in their own self-interest instead of the public they serve (Pollanen & Loiselle-Lapointe, 2012), has been adopted in studies on politicians' motivations to embrace accrual accounting. The diffusion theory has been used in studies on the adoption of accrual accounting in developing countries. Sylvia et al. (2018) adopted Bourdieu's concepts of field, habitus, and capital to better understand the adoption of accrual accounting in Indonesia.

The institutional theory is one of the significant theoretical frameworks used to analyse public policies and understand accounting changes. According to this theory, organisations tend to adopt specific systems, structures, or procedures based on their cultural and social environments, as the theory provides meaningful insights into institutional change and transformation (Dacin, Goodstein, & Scott, 2002). Under the institutional theory, there are several definitions of institutions; one of them is a set of rules, regulations, and social practices that has been established. Another study viewed institutions as "multifaceted, long-lasting social structures comprised of material resources, social interactions, and symbolic elements" (Scott, 2014). Bjorck (2004) described this theory as a set of thoughts that consistently creates a perspective on the factors influencing and restricting social behaviour rather than recognising it as a system of rules. However, Scott (2014) stated that this theory considers the process in which the structures, including rules, norms, schemas, and routines, are formed as guidelines for social behaviour.

Prior studies on accounting reforms in the public sector also adopted the institutional theory. Some previous studies explored the drawbacks of adopting accrual accounting in several countries, such as the United Kingdom, New Zealand, and Canada (Baker & Rennie 2006). Van Thiel and Leeuw (2002) analysed the influence of the actions of management and government in Netherlands on the accounting in the public sector. Nor-Aziah and Scapens (2007) examined the process of implementing accrual accounting in the Malaysian public sector. In another study, Harun, van Paursem, and Eggleton (2012) evaluated the institutionalisation process of accrual accounting in Indonesia.

Meanwhile, the process of adopting the same structures and procedures at the organisational level is known as isomorphism. DiMaggio and Powell (1983) described isomorphism as the homogenisation of organisations—a process that causes a population unit to experience the same environmental conditions as other population units. According to institutional theory, the implementation of new accounting practices, such as accrual accounting, can exert pressures and lead to external changes penetrating an organisation. Isomorphic pressure may cause an organisation to become more uniform in certain areas and conform to the standards set by a larger institutional environment. DiMaggio and Powell (1983) described three mechanisms that can lead to institutional isomorphic changes: coercive isomorphism, mimetic isomorphism, and normative isomorphism.

Firstly, coercive isomorphism results from pressures by other organisations, such as political influence and legitimacy issues. The coercive mechanism is indicated by rules, regulations, laws, sanctions, orders, and circular instructions (Scott, 2014). Secondly, mimetic isomorphism is the typical reaction to uncertainty that pressurises imitation. Organisations may model themselves when they have a poor understanding of other organisational technologies and unclear goals and encounter unknown environment (DiMaggio & Powell, 1983). This is indicated by isomorphism, common beliefs, and shared logic of action (Scott, 2014). Lastly, normative isomorphism refers to the combined pressure of an occupation's members to define the terms and procedures of their work, to manage "the production of producers", and to create a rationale and justification for their occupational autonomy (DiMaggio & Powell, 1983). This is indicated by certification and accreditation (Scott, 2014). For example, the implementation of IPSAS in Cameroon was positively related to the level of training, education level, and qualification of accounting staff. These findings were supported by Madawaki (2012) and Flynn et al. (2016)—these studies found that most capital goods and human resources are allocated to the manufacturing and agricultural industries but less investment in developing the accounting information. According to Madawaki (2012), a nation's education level may affect political awareness and the demand for accountability.

There are several iterations of institutional theory. As for the current study, the institutional logics perspective was adopted. Harun et al. (2012) and Rozaidy and Siti-Nabiha (2022) employed this theoretical perspective to explore PSAA in Malaysia and Indonesia, respectively. According to this theory, an institution has a "central logic that guides its organising principles and provides social actors with vocabularies of motives and a sense of self" (Thornton & Ocasio, 2008, p.101). These "logics" guide organisational actors' decision-making, choices, and behaviours (de Aquino & Batley, 2022). Through the prism of institutional logics, the current study examined how Alpha and Omega, two statutory bodies with business subsidiaries and a history of applying private sector accrued accounting standards, would react to and navigate the need to implement MPSAS.

CHAPTER 3: METHODOLOGY

Focusing on two statutory bodies (i.e., Alpha and Omega) this study qualitatively explored their experiences implementing accrual accounting. Semi-structured interviews were employed as one of the data collection methods. Besides, annual reports and other official documents were obtained from Alpha and Omega, which were subjected to content analysis.

The study's data collection consisted of two phases. In Phase 1, a document analysis of the financial statements from 2015 to 2020 presented in the annual reports produced by Alpha and Omega was performed. The document analysis included content analysis of the financial statements. In particular, any differences in reporting throughout the implementation and change periods of adopting accrual accounting were observed. As for the case of Alpha, the most recent publicly available financial statements were the 2018 annual report, but its subsidiary, Lambda, had its annual reports published up to 2021. Differences in the reporting items in the financial statements were noted and recorded.

Meanwhile, the main objective of Phase 2 was to ascertain the major benefits and challenges of implementing accrual accounting and whether full adoption of MPSAS is probable. Phase 2 involved conducting a series of focus group discussion and semi-structured interview with key actors involved in the implementation of accrual accounting in Alpha and Omega. In this phase, the findings of document analysis (Phase 1) were "fed" to the participants of focus group discussions and interviews to further understand how and why certain accounting practices are adopted. In particular, the design and operations of accrual accounting were explored from the viewpoints of those who are in the position to consider and decide on the implementation of accrual accounting. Besides that, the influence of accrual accounting on the public service delivery was explored.

Taking the case study on Alpha, the first round of focus group discussion was conducted at the headquarters of Alpha in Kuala Lumpur. The subsequent round was conducted in a hybrid mode, where the Finance Director and Senior Accountant of Alpha were interviewed in person at the university, while four other accountants of Alpha joined these key personnel in an online focus group discussion. Overall, the sessions lasted from an hour to two hours. On the other hand, there were three rounds of data collection for the case study on Omega. The first two rounds were conducted online, while the third round was conducted at the headquarters of Omega in Kuala Lumpur. Overall, the sessions lasted from an hour to two hours.

All interviews were recorded with the consent of participants and were then transcribed. In addition, key documents such as internal letters, memos, and circulars shared by key officials of both statutory bodies were analysed. Excerpts from these documents were quoted in this study with the gracious permission of Alpha and Omega. The details of the interviews (with anonymous identities) are provided in Appendix A.

CHAPTER 4: FINDINGS

This chapter discusses the obtained findings of this study. Section 4.2 presents the findings of the case study on Alpha, while Section 4.3 presents the findings of the case study on Omega.

4.1 Objectives of Establishing Federal Statutory Bodies

Statutory Bodies (Accounts and Annual Reports) Act 1980 (Act 240) defines a federal statutory body as "any body corporate, irrespective of the name by which it is known, that is incorporated pursuant to the provisions of federal law and is a public authority or an agency of the Government of Malaysia but does not include a local authority and a body corporate that is incorporated under the Companies Act 1965". Similar to a company, a federal statutory body is a separate entity with the power to administrate, sue (and being sued) on its own name, sign contracts, and own, buy, and hold assets.

A federal statutory body plays an important, distinct role in advising the government and delivering public services. It is typically established to carry out tasks that may be inappropriate for legal or other reasons for government departments to execute. In essence, the objectives of establishing federal statutory bodies are described as follows:

1. Federal statutory bodies are the best and most cost-effective way to deliver certain public services.
2. Federal statutory bodies focus in-depth on clear and specific functions and purposes.
3. Federal statutory bodies operate with a degree of independence from the government and provide independent expert advice on technical, scientific, or other complex or sensitive issues.
4. Federal statutory bodies operate flexibly in ways that may not be open to government departments—for examples, in building partnerships with other organisations and taking commercial and entrepreneurial decisions.
5. The establishment of federal statutory bodies allows the public sector to benefit from the skills, knowledge, expertise, and commitment of the laypeople on the boards of federal statutory bodies.

Concerning the operations of federal statutory bodies, the authority lies in their respective Board. The organisation's success or failure depends on its Board's responsibility. In general, areas related to the Minister of Finance's power to establish federal statutory bodies include matters related to investment, borrowing, and setting up of companies or subsidiaries.

4.2 Alpha

4.2.1 Background of Alpha

The rural sector served as a dominant sector for the country's economic development, social progress, and political stability near the end of the British colonial era back in 1955. The federal government then considered the innovative idea of land amelioration and settlement to work on the country's strengths and opportunities considering the vast amounts of available land for development and a large pool of manpower. Alpha was established in the 1950s by a Malaysian minister to improve the social and economic conditions of poor households previously involved in traditional agriculture. They were assisted to become modern smallholders and to farm for export, primarily concentrating on the cultivation of rubber and now mainly on oil palm and rubber plantations in recent years.

Since its inception, Alpha has played an essential role in uplifting the economies of impoverished rural households by encouraging them to become settlers. Settlers are allowed to work and live in a settlement. Back then, settlers were each given ownership rights to 10 acres of agricultural land and 0.25 acres of accommodation. To obtain land ownership, each settler would have to repay all the development costs advanced by Alpha. The settlements, which were once isolated areas with limited infrastructure, have now been transformed into modern settlements with roads and Internet access, and some of these settlements are merged to form new townships. Alpha has demonstrated the possibility of building and shaping a community and simultaneously contributing to the country's economic development without needing government funding.

4.2.2 Alpha as a Statutory Body

Alpha was established as a statutory body under the Land Amelioration Act (Act 1000)[1] . This Act provides for the establishment of an authority at the Federal level and local development boards, with the aim to promote and execute land amelioration and settlement projects through the available funds for the purposes related to land enhancement. Some of the salient features of the Act that are relevant to the case study are as follows:

i. Land Amelioration Fund

All advances, including grants, loans, or otherwise, should be made out of the funds managed by Alpha. The funds include:

a. Internal funds from operating activities;
b. Government grants;
c. Sums borrowed by Alpha through the government's guarantee;
d. Sums borrowed by Alpha from the financial institutions;
e. Any property, investments, mortgages, charges, or debentures acquired by or vested in Alpha; and
f. All other capital assets that become payable to or vested in Alpha with respect to matters incidental to its powers and duties.

[1] The exact name of the Act has been anonymised.

ii. Fund Conservation

Alpha has the duty to conserve funds to ensure that the total revenues are sufficient to meet all payable charges with respect to its obligations specified in Subsection VII (II) and Section IX, as well as depreciation and interest on capital.

iii. Reserve Fund

Alpha establishes and manages a reserve fund for the purposes of the Authority (i.e., Alpha).

iv. Powers of Expenditure

Alpha has the power to expend the fund and pay any expenses lawfully incurred, including survey fees, legal fees, remunerations of agents, technical advisers, officers, servants, and other fees and costs. The expenditure also includes any other expenses related to the execution of its duty, purchase or hire of plant, equipment, machinery, stores and other materials, and costs of acquiring any lands and buildings. Alpha also has the power to repay any funds borrowed under Act 1000[2] .

v. Borrowing Powers

Alpha may borrow any sums with the approval of the Minister to meet its obligations.

vi. Power to Issue Shares

Alpha may borrow money by issuing bonds, debentures, or debenture shares. Alternatively, it can raise capital by issuing shares of certain classes with the approval of the Minister. Alpha may make rules not inconsistent with this Act to provide for such matters concerning shares, bonds, debentures, or debenture shares issued under this Act.

vii. Investments

The fund, reserve fund, and any sinking fund may be invested in any of the investments authorised by the Trustee Act 1949 (Act 208) with the approval of the Minister.

viii. Accounts, Audit, and Annual Report

Alpha should keep proper accounts and other records related to its operations and prepare statements of accounts for each financial year. The accounts should be audited by the appointed auditors annually. The Auditor General issues an audit certificate to Alpha. The audited financial statements and auditor's report should be presented before the Parliament within one month after the date of certificate. The audited financial statements can only be published after the presentation before the Parliament.

[2] The exact name of the Act has been anonymised.

ix. Regulations

Alpha may make regulations on the opening, keeping, closing, and audit of the accounts of the boards and corporations, consistent with the Act and with the approval of the Minister.

4.2.3 Operations of Alpha

Alpha ceased recruiting new settlers in 1990 following the government's decision to grant Alpha "financial independent" status and to transform Alpha into a statutory body that can generate its own income to support its multiple development strategies to create various business portfolios. Since the government was no longer the medium to provide any funding from 1996 onwards, Alpha initiated and launched a number of private corporate entities to generate income in order to ensure the completeness in the value chain of its core activities. Some of the large private corporate entities include Lamda Holdings Ltd. and its Group Companies as well as Alpha Plantation Management Pvt. Ltd. (formerly known as Alpha Technoplant Pvt. Ltd. prior to its listing on the local stock exchange).

As Alpha's most significant subsidiary, Lamda focuses on three core business sectors, namely plantation, sweetener, and logistics. The plantation division comprises palm upstream (the largest revenue generator), palm downstream, rubber, trading, research and development, renewable energy, and integrated farming. The sweetener division operates under its subsidiary, Gamma Malaysia Holdings Ltd. Refineries are located in several locations around Malaysia. The logistics division is involved in bulking, storage, and warehousing.

When Lambda was listed on the local stock exchange in the 2010s, Alpha established Alpha Investment Corporation Pvt. Ltd. (AIC) to manage its business activities. AIC is a wholly owned investment arm of Alpha. It aims to ensure profitable and sustainable investment returns to its shareholders through non-plantation business operations. AIC mainly focuses on hospitality, property, and other strategic investments. As for the record, Alpha Capital Cooperative (ACC) was created with the objective to generate additional income for settlers through investment activities.

4.2.4 Reporting System and Accrual Accounting Standards Used by Alpha

Alpha started to adopt the Financial Reporting Standards (FRS) approved by the Malaysian Accounting Standards Board (MASB) on 1 January 2006. Following the recommendation of its consultant, one of the Big Four consulting firms, Alpha started using MFRS for the financial year beginning 1 January 2018. One of the issues encountered during the initial adoption of MFRS included a situation whereby certain systems could not interface with Settler, Land, and Plantation (SLP) system and Settler Loan Information System (SLIS) and had to be referred to the Financial Module (FI) in System Applications and Products (SAP). Furthermore, no training was provided to the staff for this transition, as the consultant had very limited time to prepare the report. The Big Four consulting firm requested the person-in-charge to brief about the MFRS two weeks before the report was submitted. However, subsequent issues emerged due to the constant change of the consultant. As a result, there was no comprehensive information from the initial consultant appointed by Alpha to execute the integration.

As for the requirements of its financial reporting, Alpha refers to Act 1000[3] and Statutory Bodies (Account and Annual Reports) Act 1980 (Act 240). One of the requirements is to submit financial statements within six months after the end of the financial year. This is a new directive as previous reporting was performed within four months. If the financial year ends on 31 December, then the financial statements should be ready on 1 April, the earliest. The participants of the current study also highlighted the occurrence of certain issues in the reporting department in April 2022. Since Alpha has public-listed subsidiaries (for example, Lamda), consolidated financial statements can only be prepared after the announcement to the local stock exchange, but in most cases, Alpha receives financial statements from its public-listed subsidiaries by mid-April. To date, Alpha has managed to submit its financial statements to the National Audit Department Malaysia before the deadline.

Alpha's financial statements (including consolidated reports) are prepared using SAP. However, settlers use a special system (referred to as SLP and SLIS), which is specifically used for plantation activities, such as purchase of fertiliser, and to manage the socio-economic development activities, such as administering housing and education loans. In 2018, consultants could not tally the balance between FI with SLP and SLIS data. FI showed the correct total figures, but SLP and SLIS showed details that did not tally with the total figures. Certain adjustments were proposed. However, it was difficult to verify the data in SLP and SLIS, which prompted the formation of a special task force to resolve the issue.

i. Biological Assets

Biological assets, such as plantation and livestock, form a significant portion of Alpha's financial statements. The main issue concerning Alpha's plantation assets is non-updated listing in SLP. This mainly stems from the plantation department that does not update their "age profile" frequently. This situation has forced the finance department to work together with the plantation department to prepare the age profile manually. All data as input are essential for the finance department for asset recognition and disclosure. This issue remains unresolved due to the technical glitch in compiling the data from 317 schemes, including internal transitions.

Furthermore, each plantation is supposed to conduct regular updating on the age profile. The data should be collected from each scheme and sent to the regional level and headquarters. One of the study's participants noted that Alpha is aware of the inconsistent data that cannot be extracted directly from SAP. This inconsistency arises due to the inappropriate timing and mismatch in the plantation data. To overcome this issue, the plantation department introduced Smart Plantation Management System (SPMS) that utilises drones to perform routine checks.

[3] The exact name of the Act has been anonymised.

Moreover, the mismatch in the number of livestock in the asset listing is attributed to the number of dead livestock reported, which must be rectified with manual counts. The write-off method is used to revalue livestock. However, beginning in 2021, the approval of the Asset Disposal Committee must be acquired, which can be rather time-consuming. In most cases, impairment is performed for livestock in the asset listing, where a nominal sum (of a given currency) is assigned to each impairment. Another issue involves ascertaining the market value of livestock. Vendors are only keen to disclose the market price or provide a quotation if Alpha is interested in purchasing livestock. Since Alpha has different breeds of livestock, it is important to obtain accurate market prices. Since livestock is not a core business activity, the impact has remained less significant.

ii. Government Grant

Starting in 2022, Alpha has started recognising assets acquired using government grants involving high-value assets. This type of asset has been created and recognised under the special asset class. Such assets would fully depreciate without affecting the profit and loss of Alpha. This type of asset's net book value (NBV) is zero, except for motor vehicles (scrap value of a nominal sum).

iii. Revaluation of Investments

As for investment of properties, Alpha is required to perform the necessary valuation every three years through an external valuer. The valuer performs comprehensive valuation in the first year, followed by desktop valuation for the following two years. The average cost for the valuation is below USD100,000. Cost is typically higher during the first year for comprehensive valuation, averaging at USD30,000, and drops in the subsequent years for desktop valuation. Accordingly, valuation costs were reportedly manageable.

4.2.5 The Extent of Alpha's Accounting Practices Accommodating or Conflicting with MPSAS

Based on the government circular issued in September 2016, Alpha, as a federal-level statutory body, had to adopt MPSAS in 2017. However, Alpha has encountered several issues and challenges in implementing MPSAS. The group and subsidiaries started using MFRS in 2018, and 16 other subsidiaries have adopted MFRS since 2020. Alpha's Board notified the differences between MFRS and MPSAS. With these concerns, Alpha could not transition to MPSAS and issued a letter to the Ministry of Finance, with a copy sent to the Accountant General's Department of Malaysia in 2019, requesting for exemption in adopting MPSAS. Alpha also met with the Accountant General's Department of Malaysia to apply for the exemption of MPSAS on 24 January 2020. Alpha justified the exemption by highlighting its endeavour to implement several initiatives and a White Paper, strengthening its accounting system as the primary objective. Although the Accountant General's Department of Malaysia concluded the need for Alpha to use MPSAS, Alpha was allowed to submit a written appeal to the department with justifications for the exemption. Alpha subsequently wrote an appeal letter to the Accountant General's Department of Malaysia in 2021.

Additionally, since 2019, Alpha has tried to restructure its borrowings, debts and interest payments of settlers and rationalise investments and asset disposal. The Cabinet also approved Alpha Recovery Plan on 14 October 2020. Then, Alpha signed a document on the issuance of sukuk on 18 December 2020. The reacquisition of Lambda was among the transformation and recovery initiatives of Alpha in 2021. On 24 February 2021, the amendment of Treasury Circular 3.1 on the need for all statutory bodies to obtain the approval of their respective boards for the suitable accounting framework for 2020, was proposed. A decision tree from the Accountant General's Department of Malaysia served as a point of reference. Alpha's Board subsequently approved the continued usage of MFRS for its financial statements on 25 March 2021. A copy of the meeting minutes was duly sent to the Accountant General's Department of Malaysia.

On 16 December 2021, Alpha had a meeting with the Accountant General's Department of Malaysia in which the appeal for the exemption of MPSAS was rejected. This was emphasised in a letter from the Accountant General of Malaysia, dated 21 December 2021. However, Alpha would be granted an extension for not using MPSAS from 2021 to 2025 but must provide a yearly timeline and progress report. On 9 February 2022. Alpha wrote to the Accountant General of Malaysia to appeal for an extension and is awaiting a reply.

4.2.6 Challenges Faced by Alpha in Complying with MPSAS

Alpha consists of many departments and subsidiaries, which are autonomous and have different types of reporting methods. For instance, Lambda uses SAP. Likewise, Gamma directly reports to Lambda and uses SAP as its reporting medium. Kappa, which is under the AIC group, mainly uses SAP. Meanwhile, dormant companies use manual systems.

When it comes to the accounting system and the adoption of MPSAS, Alpha encounters several challenges in terms of the expectation to comply with the Standard Accounting System for Government Agencies' (SAGA) requirements. The SAGA committee has not recognised the accounting system used by Alpha. To gain recognition from the SAGA committee, Alpha needs to meet the criteria established by SAGA, including the adoption of MPSAS in preparing financial statements, for its accounting system.

Within the Alpha Group, most companies rely on SAP for their accounting system, except for dormant companies that rely on manual systems (e.g., Excel). Since Alpha has public-listed subsidiaries (Lambda, Gamma, and Kappa), it can only prepare consolidated financial statements after the announcement to the local stock exchange. Preparing these consolidated financial statements involves using a template known as "console pack" developed by the Big Four consulting firm. It has the consolidation numbers or group numbers given by all subsidiaries. This new version of the console pack has been used since the end of 2021. The elimination of intercompany transactions is executed through this console pack. Hence, Alpha and its group of companies need to apply the same accounting standards in preparing their financial statements.

Alpha also encounters other challenges related to appointing the group company's auditors. These appointed auditors must be the same auditors of Alpha appointed by the National Audit Department. This standardisation is important to expedite the auditing process within Alpha.

4.2.7 Alpha's Strategic Direction Regarding the Adoption of MPSAS

Alpha still awaits the outcome of its appeal to continue its use of MFRS. One of the participants in the current study was puzzled as to why Alpha's application was rejected and wondered which criteria Alpha did not meet. Meanwhile, the Accountant General's Department of Malaysia focuses on grants; one of the participants admitted that Alpha has grants, loans, and sukuk. However, the consultant noted that Alpha did not meet the MPSAS criteria. The other participant iterated that Alpha would not be required to apply for exemption since it has public listed companies in its corporate structure (such as Lambda as subsidiaries). The participant added that Alpha met with the Prime Minister's Department, the Accountant General's Department of Malaysia and the National Audit Department, but the rejection of Alpha's application was not elucidated or justified.

Interestingly, the current study's participants expressed that they had no aversion to adopting MPSAS and even admitted that it would be unfair to reject MPSAS without a full understanding of the new standards. Additionally, there is a sense of inevitability to adopting MPSAS because Alpha must apply for MPSAS to acquire the SAGA certification.

4.3 Omega

4.3.1 Background of Omega

Prior to 1963, there was no religious financial institution in Malaysia. Omega was established for religious savings (for specific ritual purposes). Despite the operation of multiple banks before the establishment of Omega, the community remained hesitant to use these banks' conventional banking for their excursion savings; they want to be sure that their savings are devoid of usury to achieve the intended rituals.

In the late 1950s, a renowned economist proposed that the federal government shall establish a religious savings corporation. Following in the 1960s, the corporation was established under Law No. XXXIV (intentionally obscured). A specific ministry was put in charge of this corporation. The corporation made history when it opened counters nationwide in the 1960s to accept deposits from the community.

With its headquarters in Kuala Lumpur, Omega operates as a religious financial institution in Malaysia. Its main activities include managing religious activities (for both groups and individuals), depository services, and investment. Omega is committed to providing excellent services, and its track record has earned its international reputation as a model for creative and innovative (religious) excursion management. Omega has millions of depositors and numerous branches nationwide.

4.3.2 Omega as a Statutory Body

Omega is a self-funded federal statutory body that annually manages religious excursions in Malaysia by arranging the entire excursion affairs. Omega is governed by Omega Act (Act 2000)[4] which is currently under the purview of a minister responsible for specific religious affairs in the country. As defined in the Act, Omega is more than just an excursion management service provider. Indeed, it is a religious-compliant deposit-taking financial institution established under a special Act of Parliament, namely Act 1000[5] .

Omega is governed by a Board of Trustee (BoT). Under Section IV(I) of Act 2000, BoT is given the jurisdiction to administer the funds and all matters concerning the welfare of devotees. This Act empowers BoT to formulate policies and other related matters required or permitted under the Act. BoT is fully responsible for the overall corporate governance of Omega, including strategic directions and developments, as well as setting of goals, policies, and strategies to manage and monitor the performance. The Minister may provide BoT the directions on the performance of its functions, and BoT shall provide the Minister the returns, accounts, and other information with respect to the property and activities of BoT from time to time.

4.3.3 Operations and Fund Management of Omega

Omega administers funds entrusted by Malaysian devotees of a specific religion who have been saving for holy excursion visits (for specific religious rituals), manages these funds as investments, and provides reasonable returns to the depositors. Section XVI(I) of the Omega Act authorises Omega to receive deposits from devotees for the following purposes: "(a) saving towards excursion of the individual to the religious site; (b) savings for investment or for any other purposes permitted by BoT" [Section XVI(II)].

At the end of 2019, Omega introduced a deposit account to replace a savings contract. This transition is part of Omega's efforts to improve and enhance services that enable depositors to gain additional value and other benefits. A deposit is a religious-based concept, which means an act of one person appointing another party as one's representative to handle related matters. In the context of Omega, a depositor (being a principal) appoints Omega as an agent to manage the fund. As a fund administrator, Omega invests the funds and distributes the profit based on the performance of the funds, while managing excursion affairs in accordance with Omega Act (2000)[6]. Under the deposit structure, Omega does not impose any fee but would deduct management costs, excursion costs, and annual alms tax from the profits generated prior to the fund distribution. In addition, all savings are guaranteed by the Malaysian Government, and the entire operations are religious-compliant. The annual alms tax is paid for the businesses, and depositors do not need to pay the tax for the savings and profit distributed by Omega.

[4] The exact name of the Act has been anonymised.
[5] The exact name of the Act has been anonymised.
[6] The exact name of the Act has been anonymised.

Omega uses depositors' savings to invest in religious-compliant activities to generate sustainable and competitive returns. Omega also mobilises depositors' savings and invests them in major capital, equity and money markets, as well as industrial, agricultural, commercial, and real estate projects that adhere to religious principles according to the strategic asset allocation approved by the Minister. In addition, all risks and religious compliance assessments are made before any prospective investments are made. Referring to Section XX(II), Omega does not exercise the power of investment without the approval of the Minister. Omega's diverse investments in various sectors have enabled it to fulfil its social obligations regarding excursion operations and offset the associated cost for Malaysian devotees every year.

In 2019, the total cost for each Malaysian to perform a religious excursion was USD5,000. In 2022, the actual cost of performing religious excursions was USD6,200. Since 2013, the cost for first-time devotees in Malaysia was USD2,150 per person, with Omega providing financial assistance for the remaining costs. Administrative and excursion expenses include all costs associated with sending devotees to perform religious visits and organising training, and publishing excursion materials. Despite the increase in the yearly expenses for each devotee, Omega maintains the excursion cost for each devotee at USD2,150. Omega handles the remaining costs (under the Excursion Financial Support), approximately USD2,850 (until 2019). In 2022, the excursion cost was revised based on the status of the devotee's household income: B40 category of households (USD2,350) and non-B40 category of households (USD2,800) can receive financial assistance of up to USD3,800 and USD3,400 (under the Excursion Financial Support), respectively.

There are no specific requirements on the Excursion Financial Support for devotees under the Omega Act. These expenses are charged under the "Administrative Expenses" (Annual Report 2020: 149), which include staff and administrative costs. Apart from that, excursion expenses, zakat, and the profits from investments are distributed among the depositors every year, subject to compliance with Act 2000[7] The most recent profit distribution in 2021 stood at 3.10%, which was similar to that of 2020.

4.3.4 Reporting System and Accrual Accounting Standards Used by Omega

A good accounting and reporting system is essential for Omega to ensure that its operations and investing activities are fully and accurately accounted for with respect to the requirements of MFRS. Since 2007, Omega has used an off-the-shelf accounting system, namely Oracle Accounting and Financial System. Omega and its subsidiaries have long applied accrual accounting standards, with the MASB back in 2000 and prior to that. Omega, as an entity, and its subsidiaries have prepared their financial statements in accordance with the requirements of MFRS.

[7] The exact name of the Act has been anonymised.

A letter on the application of MPSAS from the Secretary General of Treasury of Ministry of Finance (Ketua Setiausaha Perbendaharaan, Kementerian Kewangan), dated 9 December 2016, mentioned that federal statutory bodies that have adopted MFRS must continue with the adoption of MFRS for the financial reporting from 2016 onwards. Therefore, Omega continues to apply the requirements of MFRS. The reasons for not adopting MPSAS are discussed in later subsections.

4.3.5 The Extent of Omega's Accounting Practices Accommodating or Conflicting with MPSAS

Following the Cabinet's decision in 2018, Omega was placed under the supervision of BNM, effective from 1 January 2019. Given the size of depositors' savings and investment activities and Omega's interconnectedness with the financial system through deposit placements and exposures to common assets (as of banking institutions), since the end of 2012, Bank Negara Malaysia (BNM) requested a periodic reporting from Omega quarterly to facilitate its surveillance on Omega's risks to financial stability. To operationalise the Cabinet's decision, BNM would also conduct supervisory reviews, including an on-site examination of Omega's books and documents, and recommend standards for Omega to adopt to strengthen its resilience and promote long-term business viability.

The reporting frequency is increased monthly, on top of a quarterly report. As stated in Act 2000 (Section XXVI), the provision of the Statutory Bodies (Accounts and Annual Reports) Act 1980 (Act 240) applies to Omega, whereby it requires the accounts to be audited. Omega has consistently maintained its financial statements in accordance with the requirements of MFRS for both audit and reporting to regulatory authorities. This provides a better understanding and makes it comparable to benchmark against its peers (other financial institutions).

Although there are specific MPSAS for financial instruments (MPSAS 28 Financial Instruments: Presentation, MPSAS 29 Recognition and Measurement, and MPSAS 30 Financial Instruments: Disclosure), Omega opined that it is a simplification of MFRS 9 Financial Instruments and drafted for government-funded statutory bodies and does not sufficiently cover the scope of Omega's transactions and accounting for Omega as a federal statutory body which generates its own income and expenses instead of accounting for surplus/deficit of government funding. Apart from Omega, there are other federal statutory bodies with financial instruments and/or no government funding, such as the Employees Provident Fund (EPF), and Retirement Fund (Incorporated). These organisations similarly apply MFRS for the accounting of their financial statements. The compliance cost for the requirements of MFRS was around USD145,000 in 2021. The costs incurred for property revaluation, consultation for MFRS requirements and taxes.

4.3.6 Challenges Faced by Omega in Complying with MPSAS

This subsection discusses Omega's investment strategies and subsidiaries to illustrate why it can be rather challenging for Omega to implement MPSAS.

i. Investments

Omega aims to provide competitive, religiously permissible returns, while ensuring continuous growth. It actively seeks strategic investments locally and globally to ensure sustainable growth. Omega only invests in religious-permissible, prudent, and safe investments. Savings from depositors are invested in religious-compliant activities to generate long-term and competitive returns. All investments under Omega are religious-compliant and accounted for following the MFRS 9 Financial Instruments requirements. Omega's funds from depositors have grown through new and additional deposits and returns from investments (net of profit distribution).

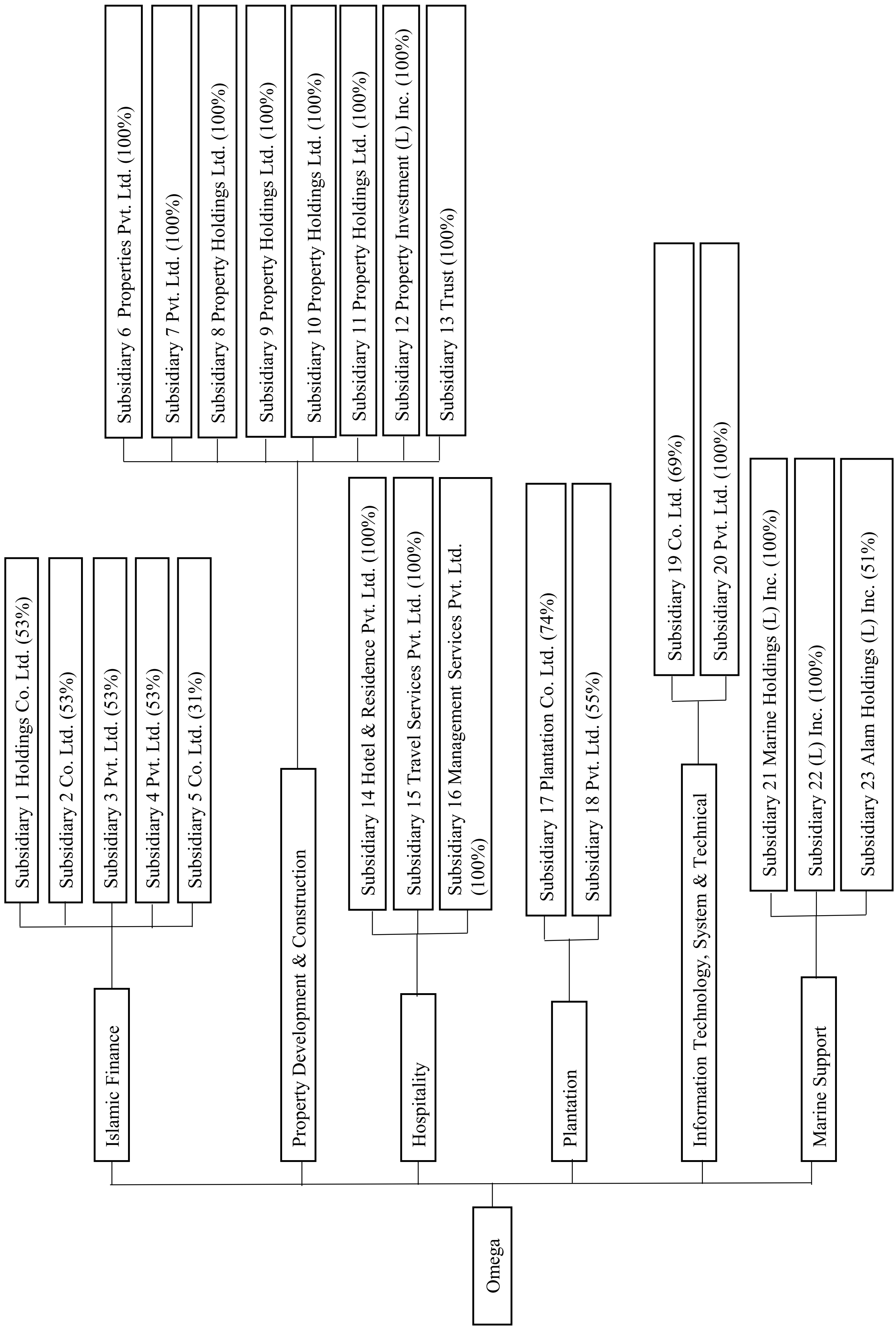
The bulk of Omega's assets are in the forms of financial instruments and real estate: (1) equities; (2) private equity funds; (3) fixed income; (4) real estate; (5) money market. The primary goal of equity investing is to generate long-term, competitive returns from capital gains and dividends while maintaining a reasonable risk level in line with the market conditions. Apart from that, the primary goals of fixed-income investment are to generate long-term, recurring income for the funds invested and to build a medium-term fixed-income portfolio. The investment strategy mainly focuses on instruments with low risks and high returns in accordance with the policies and procedures.

ii. Subsidiaries

Omega's investments are not limited to equity, fixed income, money market, and real estate. Through its subsidiaries, Omega is also engaged in other sectors, such as finance, plantations, property development and construction, hospitality, information technology, and marine support. Omega's diverse investments in various sectors have contributed a steady stream of income that has enabled it to cover the rising costs of operating excursions while continuing to subsidise the cost for Malaysian devotees every year and distributing the profits.

To date, Omega has established 23 subsidiaries across different sectors. The strategic investments made through subsidiaries have demonstrated Omega's commitment to expanding its business in identified religious-compliant sectors. Omega's investment and involvement in subsidiaries and joint ventures span a wide range of industries. Figure 2 summarises Omega's group of companies. These subsidiaries are registered under the Companies Act 2016 and subject to many requirements, including the need to use MPERS or MFRS. Therefore, an entity and group reporting can be highly challenging if Omega is required to embrace MPSAS considering that the financial statements need to be harmonised, and gap adjustments need to be made on the accounting for classification, recognition, measurement, and presentation of financial statements. This is where Omega has to prepare two sets of financial statements based on the requirements of MFRS and MPSAS. As a result, this would incur additional costs for the people, system, and processes.

Figure 1: Omega's Group of Companies



Source: Omega Annual Report, 2020

4.3.7 Omega's Strategic Direction Regarding the Adoption of MPSAS

MPSAS was introduced in 2013 to shift the public sector, namely government agencies, from cash to accrual accounting. However, Omega has been using accrual accounting standards issued by MASB since 2000 and prior. In 2016, the Secretary General of Treasury of the Ministry of Finance issued a letter on the application of accounting standards for federal statutory bodies: all federal statutory bodies that have adopted MFRS must continue to adopt MFRS for their financial reporting from 2016 onwards. The letter also highlighted that the application of MPSAS does not cover federal statutory bodies with financial reporting subjected to the supervisory laws of BNM, the Security Commission, or the Companies Commission of Malaysia. MFRS are more suited for Omega, as these standards are comprehensive and deeply cover Omega's accounting considering the nature of activities involved. Omega's financial statements are publicly available for reference and comparable to benchmark against other international organisations and peers (financial institutions). Moreover, Omega is a self-funded federal statutory body that generates and manages its own income and expenses and does not receive government funding. It reports to BNM on a periodic basis.

However, if it is compelled to adopt MPSAS by the federal government, Omega has developed various strategies. Firstly, Omega needs to set up a Steering Committee to steer the directive on MPSAS with periodic reporting to BoT. Secondly, the Working Committee group should be formed to perform a feasibility study and gap analysis on the application of MPSAS in Omega. Thirdly, if necessary, Omega should consider engaging with the industry subject matter experts for guidance on the directive on MPSAS. MFRS would be more useful for decision-making purposes.

Omega regards the irrelevance of MPSAS based on the current trajectory of phasing out statutory bodies, such as pension division; more statutory bodies would need to obtain their own funding source by establishing business subsidiaries. As a result, subsidiaries need to report to the Companies Commission of Malaysia (CCM), and thus, MPSAS would not be applicable. Furthermore, if the holding company uses MPSAS, the subsidiaries need to perform gap analysis and prepare two sets of financial statements in accordance with the requirements of MFRS and MPSAS at entity and group levels. These activities would result in additional costs on people, systems, and processes.

CHAPTER 5: DISCUSSION

Based on the findings of two case studies presented in the prior chapter, it is evident that both Alpha and Omega have applied accrued accounting for many years due to their hybrid nature of having business subsidiaries. These subsidiaries were first established to generate income for their respective statutory body towards achieving financial autonomy and independence. Considering their corporate nature, these subsidiaries must comply with the securities laws, including preparing financial statements according to the requirements of MFRS. For consistency, uniformity, and cost savings, the parent statutory bodies prepare their financial statements in accordance with the requirements of MFRS. Both Alpha and Omega were found to have their own comprehensive financial reporting systems. Alpha initially experienced issues in the adoption of its console pack, whereas Omega experienced no issues with its current system. Overall, the financial reporting systems used by both statutory bodies have served their respective financial reporting purposes.

The current study also observed several accounting practices at Alpha and Omega that conflict with the accounting conventions of MPSAS. These conflicting issues mainly emerged due to the nature of operations of Alpha and Omega. Firstly, both Alpha and Omega operate as business entities. Both statutory bodies generate their own income and do not rely on government funding to finance their operating expenses. Therefore, they do not consider themselves subjected to the same financial reporting requirements as other statutory bodies that rely entirely or largely on the government for funding. Secondly, the subsidiaries of business-like statutory bodies like Alpha and Omega need to comply with the listing and other regulatory requirements for publicly traded securities, including preparing financial statements according to the approved accounting standards for the private sector. Thirdly, MFRS are more comprehensive and adequately encompass the nature and operations of statutory bodies that operate as business entities. In contrast, MPSAS are more suited for the organisations in the public sector that do not perform business activities and have previously used cash accounting.

When it comes to the challenges faced in complying with MPSAS, the current study found the preparation of consolidated financial statements in accordance with MPSAS as the main challenge for both statutory bodies. The financial statements of their business subsidiaries, which are prepared in accordance with MFRS, need to be restated line-by-line in accordance with MPSAS; doing so is time consuming and potentially costly.

Meanwhile, when it comes to the strategic direction regarding the adoption of MPSAS, the current study observed the reluctance of Omega to adopt MPSAS due to the reasons discussed above. Nonetheless, Omega was found to have several coping strategies (if compelled to do so). As for Alpha, their response was found to be more ambivalent. The participants conceded their lack of understanding of MPSAS and admitted that it would be unfair to reject it outright. Alpha has requested to continue using MFRS for reasons that are similar to Omega—has business subsidiaries that need to comply with the securities laws. At the point of the study, Alpha recently received a government grant and was in the midst of restructuring, which potentially affects their stance of MPSAS in the future.

From the institutional logics perspective, it can be inferred that both Alpha and Omega regarded themselves as corporate entities, notwithstanding their official status as statutory bodies. Therefore, the current study observed an ingrained belief among institutional actors, supported by the reality of operations that MFRS may be more appropriate for the business-like nature of Alpha and Omega. As a result, both Alpha and Omega are reluctant to embrace MPSAS. Nonetheless, considering the isomorphic coercion to adopt MPSAS for the SAGA certification, both statutory bodies formulate several strategies to cope with the transition but remain hopeful of maintaining their status quo.

Referring to the example of Finland discussed in Chapter 2, it is apparent that governments can develop and successfully use their own accrual accounting practices for the public sector that are not adapted from IPSAS. The adoption of IPSAS, MPSAS, or other accounting standards should suit the entity and the nature of its operations. Since the purpose of financial reporting is to provide a true and fair view of the entity, an entity that conducts business activities should use accounting standards that reflect the nature of its operations. Compelling such entity to report according to accrual accounting standards for the public sector would mask the true nature of its operations and not provide a true and fair view of the entity. Therefore, when it comes to hybrid government operations that primarily focus on business activities, such as Alpha and Omega, the application of accrual standards for the private sector, rather than MPSAS, would be deemed more fitting.

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

The current study explored the experiences of Alpha and Omega in implementing accrual accounting and the challenges faced in their efforts to fully implement MPSAS. Based on the obtained findings, the need of their business subsidiaries to prepare financial statements according to the accrual accounting standards for the private sector contributed to the use of MFRS in both statutory bodies. Furthermore, the preference of Alpha and Omega to continue using MFRS, instead of MPSAS, has been attributed to the issues of preparing consolidated financial statements and the suitability of MFRS for the needs of their business operations. Evidently, the application of MFRS was ingrained among the institutional actors in both statutory bodies. Nonetheless, both Alpha and Omega reported that isomorphic pressure has compelled them to adopt MPSAS, resulting in higher compliance costs due to the need to reconcile MFRS-based financial statements to those in accordance with MPSAS.

Based on the findings of this study, it can be concluded that the adoption of MPSAS is not in the best interests of statutory bodies that operate as business entities and have already adopted accounting standards for the private sector, namely MFRS or MPERS. Forcing statutory bodies that operate as business entities, such as Alpha and Omega, to adopt MPSAS would be counterproductive for three main reasons.

Firstly, these statutory bodies operate as business entities. In other words, they generate their own income and manage their own expenses. They also do not rely on government funding to finance their operations. Therefore, these statutory bodies are not subjected to the same financial reporting requirements as other statutory bodies that entirely or largely depend on the government for funding. The use of MPSAS-based financial statements is also questionable since both statutory bodies, particularly Omega, are financially self-sufficient and receive no funding from the government.

Secondly, the subsidiaries of business-like statutory bodies need to comply with the listing and other regulatory requirements for publicly traded securities, including the preparation of financial statements according to the accounting standards for the private sector.

Thirdly, MFRS are more comprehensive and adequately encompass the nature and operations of statutory bodies that operate as business entities. In contrast, MPSAS are more suited to entities in the public sector that perform no business activities and have previously used cash accounting. Compelling statutory bodies like Omega to adopt MPSAS and reconcile MFRS-based financial statements of subsidiaries accordingly would increase their compliance costs, create inefficiencies, and result in unnecessary duplication of data.

Therefore, it is recommended to maintain the current policy of granting exemption to certain statutory bodies. Although the adoption of MPSAS is generally desired by the federal government, there should be flexibility in the policy for hybrid organisations in the public sector, such as Alpha and Omega. Since the overarching purpose of introducing MPSAS is to provide standardisation of accrual accounting practices for organisations in the public sector, which had hitherto operated on a cash accounting, were completely reliant on the government for funding, and lacked managerial ethos, business-like statutory bodies should not be castigated for using MFRS and coerced into implementing MPSAS. Instead, the entrepreneurial spirit of such statutory bodies should be held as exemplars to their non-business peers of the benefits of accrual accounting for the public sector.

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APPENDIX

Appendix A

IPN RESEARCH GRANT
PROJECT: FINANCIAL MANAGEMENT IN THE MALAYSIAN PUBLIC SECTOR: THE DYNAMICS OF ACCRUAL ACCOUNTING IN TWO HYBRID STATUTORY BODIES' ADMINISTRATIONS
PROJECT LEADER: DR. ZUBIR AZHAR
PROJECT MEMBERS: [1] DR. K. KISHAN
[2] ASSOC. PROF. DR. ERVINA ALFAN

LIST OF INTERVIEWEES

OMEGA: VISIT/INTERVIEW 1

CASE	**:**	**OMEGA**
VENUE	**:**	**ONLINE (MICROSOFT TEAM)**
DATE	**:**	**01 APRIL 2022**
TIME	**:**	**10AM – 11AM**

No.	Name	Position	Remarks
1.	Respondent 1	Head, Group Shared Services	Introduction
2.	Respondent 2	Corporate Communication Department	Non-Disclosure Agreement

OMEGA: VISIT/INTERVIEW 2

CASE	**:**	**OMEGA**
VENUE	**:**	**ONLINE (MICROSOFT TEAM)**
DATE	**:**	**03 JUNE 2022**
TIME	**:**	**11AM – 12PM**

No.	Name	Position	Remarks
1.	Respondent 3	Head, Group Shared Services	Preliminary data collection Brief introduction to Omega's financial management and practices
2.	Respondent 4	Financial Operations Director	Preliminary data collection Overview of financial practices
3.	Respondent 5	General Manager (Finance)	Preliminary data collection

OMEGA: VISIT/INTERVIEW 3

CASE	**:**	**OMEGA**
VENUE	**:**	**BOT, KL**
DATE	**:**	**22 JUNE 2022**
TIME	**:**	**9AM – 12PM**

No.	Name	Position	Remarks
1.	Respondent 6	Head, Group Shared Services	Historical background Issues Regulatory requirements
2.	Respondent 7	Financial Operations Director	Historical background Issues Experience sharing Regulatory requirements
3.	Respondent 8	General Manager (Finance)	Experience sharing

ALPHA: VISIT/INTERVIEW 1

CASE	**:**	**ALPHA**
VENUE	**:**	**MENARA ALPHA, KL**
DATE	**:**	**14 JUNE 2022**
TIME	**:**	**11AM – 12PM**

No.	Name	Position	Remarks
1.	Respondent 1	Head, Group Shared Services	Introduction
2.	Respondent 2	Accountant	Non-Disclosure Agreement
3.	Respondent 3	Managing Director	Non-Disclosure Agreement

ALPHA: VISIT/INTERVIEW 2

CASE : ALPHA
VENUE : UNIVERSITI, PENANG
DATE : 04 AUGUST 2022
TIME : 10AM – 12PM

No.	Name	Position	Remarks
1.	Respondent 4	Finance Director	Historical background Issues Regulatory requirements
2.	Respondent 5	Senior Accountant	Historical background Issues Experience sharing Regulatory requirements
3.	Respondent 6	Accountant (Senior Assistant Director)	Historical background Issues Experience sharing Regulatory requirements
4.	Respondent 7	Accountant (Assistant Director)	Experience sharing
5.	Respondent 8	Accountant (Assistant Director)	Experience sharing
6.	Respondent 9	Accountant (Assistant Director)	Experience sharing

INSTITUT PERAKAUNAN NEGARA
JABATAN AKAUNTAN NEGARA MALAYSIA
Jalan 2, Sg. Lang, 45100 Sabak Bernam
Selangor Darul Ehsan
Tel: +603-3217 2000
E-mel: info.ipn@anm.gov.my

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