

THE PARADOX OF ACCRUAL- BASED ACCOUNTING INFORMATION IN THE MALAYSIAN PUBLIC SECTOR

INTRODUCTION

In the past three decades, accrual accounting approach appeared as an essential ingredient in transforming a landscape of financial management in public sector environment across the world. Through the New Public Management (NPM) programme, it reflected the belief that this is the key to resolve various financial management deficiencies in public sector for better economic health. Moreover, the growing attention given to public governance demands an accounting approach that could disclose resource utilisation in a more transparent manner and stimulate public performance effectively (Ball, 2012; Hyndman et al., 2014). Hence, the government for most developed countries including New Zealand and the United Kingdom have transformed their financial reporting basis from cash to accrual accounting since 1980s (Lapsley, 1999; Ellwood and Newberry, 2007; Pollanen and Lapointe, 2012). This trend has spread to developing countries¹ including Thailand, Indonesia and Malaysia.

Reflecting on this global movement, extensive research has been done in Public Sector Accounting Reform (PSAR) with the discovery of significant diverse results. Unfortunately, the coverage of investigation is not evenly distributed across the world, with developing countries being neglected (Broadbent and Guthrie, 2008; Goddard, 2010; van Helden and Ouda, 2016). Nevertheless, the developing countries are active participants of NPM, in order to ensure their sustainability in the world economy. As highlighted by Goddard (2010), the role of government in developing countries is vital to safeguard the fundamental survival, maintenance of social welfare and poverty alleviation. Moreover, Adhikari, Karuppu and Matilal (2013) indicated a pressing need to explore the accounting reform adoption experience in developing countries as they operate under different sets of contextual conditions.

¹ The research used the UNCTAD (2012) classification of developing countries, which is based on economies' positions. UNCTAD grouped the countries in three categories; developing economies, transition economies and developed economies based on average GDP per capita and export diversification. Although this categorisation does not completely reflect a level of development or measure welfare for every country, this is useful for this research as majority of Malaysian government financial and economic policies refer to this categorisation.

Inspired by high-intense debates and relatively little empirical or theoretical work in developing countries, this research seeks to expand the ongoing interest in the development of accrual accounting approach by focusing on an in-depth exploration of contextual interactions between the institutions and the process of accounting change in Malaysia. In particular, the research will explore how accrual accounting practices become institutionally embedded within the political and administrative structures. It will also investigate how public organisations manage, and responses² to any potential institutional complexity during the transition period. With its focus on inter and intra-organisational phenomenon, this research endeavour requires understanding in the details of the organisational field³ and organisational level.

LITERATURE REVIEW

Despite substantial claims and promises of accrual accounting superiority, its suitability in public sector has been widely debated. Regarding this, Arnaboldi and Lapsley (2009) revealed that debates continue to erupt from NPM field on the merits of both, cash and accrual accounting approaches. The proponent of cash-based in public sector includes among others, Hyndman and Connolly (2011), who stated that the item accounted for under cash-based accounting is simpler, more objective and easier in terms of preparation and comprehension as compared to accrual accounting. While a relatively simpler set of financial reports, Mellor (1996) and Ball (2012) argued that cash-based accounting does not provide meaningful information that depicts the government's financial status accurately. This is because neither assets nor liability are recognised, including the future obligations for public servants' pensions and Public Finance Initiative (PFI) transaction, which often require significant amount of public monies. With the growing concern on financial sustainability which demand better management of resources, the advocates of PSAR, particularly international bodies such as World Bank, International Monetary Fund (IMF) and ADB (Asian Development Bank), actively disseminate the idea that the accrual accounting approach would remedy all these restrictions, thus heralding an era of accrual accounting for the public sector.

² Consistent with Pache and Santos (2010), "responses" in this research refers to the extent to which organisational members adhere to and promote a given demand.

³ Organisational field according to DiMaggio and Powell (1983), constitute a recognised area of the whole institutional life covering key suppliers, product consumers, resources, regulatory agencies and other organisation that produce similar product or services, in this case public services.

Nevertheless, prior work has shown that there is a lacuna between the rhetoric and reality of accrual accounting. Although international bodies continue to promote the supremacy of accrual accounting in public sector, the evidence suggests that it is problematic and unsuitable for public sector's purposes. The information produced is misleading (Barton, 1999; Carlin, 2005) and creates problems in valuation especially for heritage assets (Carnegei and Wolnizer, 1999; Biondi and Lapsley, 2014), museum's collections (Hooper, Kearins and Green, 2005) and infrastructure assets (Pallot, 1997). Hence, they recognise that accrual accounting retains more contradictions and paradoxes than the original expectations, leading to the failure to fulfil its claim in many countries, yet, curiously, developing countries still decide to commit to this initiative.

Moreover, recent studies focusing on the process of changes to accrual accounting in New Public Financial Management (NPFM) framework revealed its complexity (Caperchione, Christiaens and Lapsley, 2013; Kartalis, Tsamenyi and Jayasinghe, 2016). In earlier Guthrie, Olson and Humphrey (1999; 213), this complexity is crucially bound up with differing organisational and social institutions which produced significant variations among countries, and even extremely different approach among public organisations in the same country (Lapsley and Pallot, 2000). This situation is suggestive of the institutionalist interpretation of events on the complexity in organisational changes, whereby the actors hold opposing interests and expectations on the existence and appropriateness of certain logics as addressed by Greenwood et al. (2011). Given the intense debate regarding the appropriateness of accrual accounting in the public sector environment, the research believes that this issue is especially crucial during the transition process.

Drawing on this pattern and the concerns raised, it appears that the transition process towards accrual accounting in public sector requires a detailed scrutiny, particularly among developing countries. As such, Malaysia fits a typical example of a developing country trying to adopt accrual accounting as part of its Public Financial Management (PFM) reform plan. The period given for the changes in Malaysian Public Sector is less than four years, while the early reformers, including New Zealand and UK, had taken eight to ten years to complete the whole process. In doing this, the reform actors need to quickly prepare various activities, simultaneously, to ensure all the twenty-four federal ministries could complete the initial adoption process. Furthermore, the

Malaysian government has decided to adopt IPSAS as its new reporting framework. Notwithstanding the rapid adoption of IPSAS globally, many of the early reformers faced difficulties to fully comply with the IPSAS requirement (Bellanca and Vandernoot, 2013; Aversano and Christiaens, 2014). Thus, it is questionable whether the application of these standards is suitable for the radical changes plan in developing economies context. Together, the failure track record of the accrual accounting approach itself, the uniqueness of the contextual condition and the complexity of the public sector environment, seem to pose major challenges to the Malaysian Public Sector (henceforth MPS) reform actors. But yet, there is no attempt to investigate the progress of the Malaysian government so far. It is uncertain whether the adoption of such plan will facilitate or complicate the intention of enhancing the public financial management disclosures and its processes.

RESEARCH DESIGN

In this research, the attention will be given to assessing the reform actors view and opinion on the reform initiatives during the transition process. These include: accounting personnel, asset managers, external consultants, top policy makers, top management of public organisations, members of the Public Account Committee⁴ (PAC) and budgeting officers. According to Creswell (2009), research focus on social and human science exploration require explicit assumption about philosophical worldview, strategy of inquiry and method. Following this idea, Critical Realism will be utilised as a philosophical worldview, and institutional theory as the theoretical lens of this research. In particular, the framework of institutional complexity introduced by Greenwood et al. (2011) was extended to include other vital elements concerned with the process of institutional changes proposed by Dambrin et al. (2007).

Moreover, in searching for the detailed answers for the exploratory research questions, qualitative approach were utilised as a strategy of inquiry in which multiple case studies were used as a vehicle to gain access to the multiple sources of evidence within the MPS context. From 24 executional ministries, three ministries were selected for a detailed analysis. This includes the Ministry A (MinA), Ministry B (MinB) and the

⁴ The PAC in Malaysia is a committee of the legislature. It examines the public accounts on the basis of the observations raised in the auditor-general's report and ensures that all issues highlighted there-in are properly addressed. It therefore acts as a mediator between the accountant-general and the auditor-general.

Ministry C (MinC). The selection of these ministries is purposive. the research believes that it permits contrast because they are very different in terms of functions and sizes, the nature of assets and liabilities owned, and issues likely to be confronted in implementing such reforms. At the same time, a combination of data collection technique, particularly document reviews, interviews and observations, were selected for a more compelling and valid evidence in supporting that intention. This is especially important as the researcher is actively involved in the research event before, and a single type of data collection technique may impose an element of bias towards certain views that could influence the analysis of the research findings.

The multiple sources of evidence is further strengthened by a longitudinal perspective in this research; covering the evolution of accrual accounting practices from the period of development (2011-2013) until the adoption and implementation (2014-2016). In overall, this research has collected more than hundred archival documents, conducted a total of fifty-seven interviews and four observations at lead agencies and executional ministries. From this process, the research believes that the available data provide a rich foundation for understanding how competing logics were managed at field and organisation levels during the transition process.

EMPIRICAL FINDINGS

The data shows Malaysia's decision to adopt accrual accounting in 2010 after considering recommendations from key figures in the business community. By adopting private sector practices, they highlight the ability of accrual-based information in supporting a sound financial management decision. They claimed that this could strengthen the government's fiscal policy and foster better financial planning to achieve developed nation status by 2020 (Treasury, 2013). Consistent with this recommendation, the government has announced its intention to implement accrual accounting based on IPSAS (International Public Sector Accounting Standards), starting from 1 January 2015.

However, after five years of transition this research found that the reform mechanisms developed for efficiency logic through a highly-centralised strategy creates intense conflict and an unintended effect defying the original expectation. The evidence revealed how the ultimate institutionalisation of accrual accounting approach, was

constrained by the key actors' limited capacity for action along with unaccommodating power dependencies. Moreover, the tension that arose between multiple expectations and the inherent attributes and culture of the public organisations that were strongly embedded in social welfare logics heavily influenced their interests and commitments in applying the efficiency logics prescription which underpin accrual accounting.

The data also shown the difficulties in complying with the IPSASs requirements, especially by organisations with distinctive assets where the relevant government policies still appear ambiguous. As evident in MinA and MinB, the organisational actors are confronted with unclear and inappropriate prescriptions on the new accounting and management rules associated with efficiency logic. In particular, the rules for infrastructure assets and heritage assets based on IPSAS are ambiguous and considerably unspecified. Once they notice the incompatibility of the new regulation with the assets, rather than complying, their internal technical experts actively challenge the institutional rules that appears to be less significant in their own insular environment. Although such issue is frequently raised, unfortunately there is no serious effort from the lead agencies to assist the individual organisations in alleviating the conflict triggered by the mismatch between the efficiency logic and the unique nature and structure of the public sector organisation. This is similar to the experience shared by early adopters, yet the issue of ambiguity in accrual accounting rules continues to challenge the reformers without any solution (Biondi and Lapsley, 2014). Some organisations, therefore, struggle to cope with the additional complexity rooted in its context.

Consequently, there is heterogeneity in organisational responses and the quality of accounting information produced proved to be below expectations. The new financial information indicating the government's financial position has imposed some political risks that have caused political support for the project to fluctuate. Since the adoption of accrual accounting apparently induces conflicting approach resulting in antagonistic institutional demands about the most appropriate means of governmental financial management, the government decide to delay the full implementation from 2015 to 2018. They prioritise the image boost demand by prolonging the coexistence of modified-cash basis and accrual accounting till 2020. This decision supports the argument made by Hyndman et al. (2014) on the significant influence of the greater power distance in determining the speed of changes processes.

Besides prolonging the coexistence of the two logics, the image boost expectation also challenges the credibility of the lead agencies to materialise the new intention in the formulation of new regulations. Although they initially promised for better disclosure, the government defer the adoption of certain MPSAS related to liabilities that support the image boost intention. They choose to adopt a blended hybrid strategy in the reporting policy temporarily by introducing a modified-accrual approach that maintain some dominant rules of cash-basis within an accrual accounting format. The element of cash basis is particularly obvious in the selective disclosure of government debt, in which the transactions and balances of PPP (Public-Private Partnership), concessions and pension liabilities with significant value still remain hidden, whereas all the assets will be reported in accrual basis. Hence, there is disparity in the disclosures treatment; the amount of government's debts are understated yet the assets are overstated. According to Ellwood and Newberry (2007), This manipulative approach could increase the possibility of information asymmetry. Considering that the politicians are more powerful than public managers in the MPS field, the radical shift from social welfare logic to efficiency logic subsequently leads to the emergence of an alternative template. This negatively affects the technical accounting compliance thus, potentially ruining the quality and functionality of governmental financial statement in Malaysia. Therefore, rather than functioning as a management tool, accrual accounting has become a political tool. The strong power of political decision makers consequently diverts the initial intention of the government in achieving the aim of efficiency logic.

CONCLUSIONS

The above scenarios indicate that the dominant political preference on image boost intention is strongly in conflict with all the managerial principles associated with efficiency logic. In this situation, the key decision maker at lead agencies has no choice but to let the politicians proceed with the decision that supports the image boost demand and the old logic. Nevertheless, once the Malaysian government announces the full implementation of modified-accrual accounting, many users may still be interested to know the transparent information that delivers real insight into the government's financial position and performance. The public, the credit rating agency, the investor and the opposing party which support the pure private sector's principles,

are determined to scrutinise how the government manage the public fund through a new set of financial statement and yet, their expectation could not be satisfied by this reform. Also, the public managers do not have easy access to the comprehensive information for better financial decision-making and prudence fiscal planning as planned earlier. Additionally, the ambiguity of some accrual accounting rules may confuse them. Hence, rather than assisting and elucidating, accrual accounting obscures financial information.

Given the unstable political and economic local condition, this research argues that the current solution is not viable in a long run. This will ultimately affect the government's legitimacy and political contestation. This argument is consistent with the suggestion made by Hood (2007) who predicted that when transparency meets blame-avoidance in a bureaucratic environment, the government will choose for better presentation approach which consequently jeopardise the situation. At this moment, modified-cash accounting remains dominant in the MPS, and the claims by the Malaysian government on superior value of accrual accounting appears invalid. If these issues remain unresolved, the research implies that the Malaysian government will not be able to realise the value promised by accrual accounting, of which, may result in significant consequences in its effort to become a developed nation.

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