

CHALLENGES OF ACCRUAL ACCOUNTING IMPLEMENTATION IN MALAYSIAN ACCOUNTANT GENERAL'S DEPARTMENT

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ABSTRACT

Accrual accounting was fully implemented in Malaysia in the year 2015, with the aim to improve financial management procedures in the public sector. However, accrual accounting always deals with challenges that may influence the migration process and bring a huge impact on many parties. Therefore, a set of questionnaires regarding the government servants' perception on challenges of adopting accrual accounting was distributed to various divisions in the headquarters of Accountant General's Department (AGDs) in Putrajaya. Identified challenges are categorized by Exploratory Factor Analysis into three factors. These factors named as challenges covered on the issues of policies and rules, top management and also internal users. These results are important for the government so that it can play a more proactive role to ensure that accrual accounting in Malaysia is successfully implemented.

Key words: Accrual Accounting; Challenges; AGD; Malaysia.

Introduction

Accrual accounting is an accounting methodology under which transactions are recognized as the underlying event occurs, regardless of the timing of the related cash receipts and payments to be made [1]. Based on this methodology, revenues are recognized when income is earned and expenses are recognized when the services have already been applied. As mentioned by the Accountant General of Malaysia, to become a high-income nation, one of the key priorities is strengthening and reforming fiscal discipline. In line with this goal, the National Economic Advisory Council (NEAC), through New Economic Model (NEM), recommends a new initiative that is, to migrate from cash-based accounting to accrual accounting in the public sector. This initiative is expected to facilitate asset-liability management and, hence, comprehensive and prudent fiscal management [2]. Therefore, Malaysia intends to transform its cash-based International Public Sector Accounting System (IPSAS) to accrual accounting system by 2015.

The Prime Minister of Malaysia, Dato' Sri Mohd Najib Tun Abdul Razak mentions that, "The NEM will help Malaysia to create a high-income nation that is sustainable and inclusive. Put more simply; our goal is to make Malaysia a prosperous country that benefits everyone, now and for future generations" [2]. Migration to accrual accounting is an aspiration of the Malaysian Government in attaining the developed nation status with the drive for "People first, Performance now." As quoted in Accounting Today (June 2011), Prime Minister, Dato' Sri Najib Tun Razak mentions, "We need a government that enables and empowers the private sector. This means re-shaping and energizing the public sector to be more responsive and accountable to the needs of private citizens and businesses" [3].

However, accrual accounting always deals with challenges that may influence the migration process. And, the most challenging part for the public sector in migrating to accrual accounting is that they need to focus on awareness, regulatory structures, building capacity, competency and integrating systems for the public servants to easily use accrual accounting. In fact, from the aspect of training, the management needs to enhance their servant by improving their skills and training programs. Besides, key challenges surrounding awareness, infrastructure, training and politics will need to be addressed before the benefits will be apparent to users [4]. Therefore, this study will identify the challenges in adopting accrual accounting in the case of Malaysian Accountant General's Department.

Literature Reviews

Accrual accounting is a method that measures the financial performance and financial position of an entity to recognize the effects of transactions or events as they occur. Accrual accounting is different from cash accounting since cash accounting is seen as cash or its equivalent, either when it is received or paid. The International Public Sector Accounting Standards Board (IPSASB), which is under the Federation of Accountant (IFAC), is known to be responsible for developing International Public Sector Accounting Standards (IPSAS) and it strongly encourages the national government to implement accrual accounting [5].

Figure 1: Countries that are Migrating to Accrual Accounting

	Full Cash Basis	Combination of Cash and Accrual Basis	Full Accrual Basis
Australia			×
Austria	×		
Belgium	×		
Cambodia		×	
Canada			×
Colombia			×
Czech Republic	×		
Finland		×	
France			×
Germany	×		
Greece	×		
Hungary	×		
Iceland		×	
Indonesia		×	
Ireland		×	
Israel		×	
Jordan		×	
Kenya	×		
Mexico		×	
Morocco	×		
Netherlands	×		
New Zealand			×
Norway	×		
Slovak Republic	×		
Slovenia	×		
Suriname	×		
Sweden		×	
Turkey	×		
United Kingdom			×
United States			×

(Source: OECD/ World Bank Budget Practice)

Figure 1 shows the countries that have fully implemented accrual accounting and a number of countries that have not been fully implementing, but are moving towards to full implementation. The main reason that caused many countries to switch from cash basis to accrual basis is to enable the more effective and efficient fiscal management (Irvine, 2011). Usually, it takes from five to ten years for a country to complete the conversion to accrual accounting. For example, in New Zealand, the process has reportedly taken ten years. On the other hand, the United Kingdom and Sweden are reported to take seven and eight years respectively [6]. For Malaysia, it is expected to take five years for the full implementation of accrual accounting [7].

There are several reasons why the Malaysian government migrated to accrual accounting. Generally, Malaysia is in the process of becoming part of developed countries. Among the benefits for the public sector in Malaysia from the implementation of accrual accounting is, the government has an access to accurate information for the purpose of accountability. The migration to accrual accounting within an accounting environment is expected to be helpful and enhance the quality of information available in decision making [8]. Other than that, it helps in improving performance management, financial transparency and accountability in public organizations.

According to the Accountant General, Datuk Wan Selamah, accrual accounting can give benefit to Malaysian public sector such as cost saving, where this costing data of output enable more effective evaluation of alternatives to achieve the outcomes [9]. Next, the information on assets facilitates unlocking of values. Lastly, the assets' listing provides a database for infrastructure management, leading to better maintenance of assets for better service delivery.

Methodology

To achieve the objectives of this study, the staffs from the Headquarters of Accountant General's Department (AGD) in Putrajaya were selected as the respondents. There is a total population of 800 servants. For this study, 300 questionnaires were distributed to the various divisions in the headquarters of Accountant General's Department (AGD) in Putrajaya. However, only 146 questionnaires (48.67%) were completed by the respondents.

This questionnaire is adapted from three different past research papers from [10], [11] as well as [12]. It consists of two parts. The first part of the questionnaire is Demography (D), which gathers personal information of the respondents. There are four questions in this part. The second part of the questionnaire covers items that gauge the government servants' perception on the challenges of applying accrual accounting. There are 12 questions stated. In this part, the respondents are instructed to show the extent of their agreement or disagreement using a six-point Likert scale, ranging from 6 for "strongly agree" to 1 for "strongly disagree." This method provides a clear definition to construct of interest of the respondents.

With regards to the socio-demographic profiles of the respondents, majority of them is female (84; 57.5%). Most of the respondents have also served the government from 5 to 9 years (61; 41.8%), while others have served from 1 to 4 years (41; 28.1%) and 10 to 14 years (32; 21.9%). On the other hand, only 19 respondents (13.0%) have attended accrual accounting courses, such as Seminar of Introduction to Accrual Accounting, Seminar of Accrual Accounting in Public Sector, National Conference for Public Sector Accountant on the Topic of 'Transitioning to a New Public Sector Accounting Landscape', as well as an Executive Talk: Accrual Accounting, Our Journey of Transformation.

56 respondents (38.4%) possess Sijil/STPM/SPM/PMR as their highest educational achievement, 44 respondents (30.1%) have degrees in accounting, and 42 respondents (28.8%) have diplomas in accounting. Meanwhile, only 4 respondents (2.7%) have master degrees and other disciplines as their highest educational achievement. Only 22 respondents (15.0%) have professional qualifications, such as the ones from Malaysian Institute of Accountants (MIA), Malaysian Institute of Certified Public Accountants (MICPA) and Institute of Internal Auditors (IIA).

Findings

Factor analysis is conducted to explore the underlying factors associated with 12 items. The rules of thumb suggest that Kaiser-Meyer-Olkin (KMO) should exceed 0.6 and Bartlett's test sig. value should be 0.05 or smaller. The results in Table 1 indicate a KMO value of 0.873 and Bartlett test value of 0.00. Therefore, these results conclude that both are highly significant and the factors are suitable for the factor analysis.

TABLE 1: KMO AND BARTLETT'S TEST

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.873
Bartlett's Test of Sphericity	Approx. Chi-Square	1300.070
	df	66
	Sig.	.000

For this study, we use SPSS 19 to analyze data. Table 2 shows Exploratory Factor Analysis's (EFA) result of the identified 12 items that were grouped into three factors.

TABLE 2: ROTATED COMPONENT MATRIX^A

	Component		
	Policies and procedures issue	Users issue	Top management issue
D7	.677		
D8	.812		
D9	.825		
D11	.705		
D15	.689		
D2			.789
D3			.866
D4			.678
D13		.726	
D14		.826	
D16		.883	
D18		.777	

Three main identified factors were determined as follows (Table 3):

TABLE 3: THREE MAIN IDENTIFIED FACTORS

Main Factors	Measures
Policies and procedures issue	Measurement of fixed assets, valuation policy, resources, incomplete information, understanding.
Top management issue	Jurisdiction, authority, experience
Users issue	Commitment, teamwork, involvement, understanding

Policies & procedures refer to principles, rules and guidelines formulated or adopted by an organization to reach its long term goal. In this study, policies and procedures referred to how the organization records the transaction. Currently, there is a lack of complete records on the financial details which record on assets and liabilities, income and expenses, and debtors and creditors and debtors. The complete record is important as the basis for constructing chart of accounts and opening balance sheet. Besides that, the measurement and valuation rules need to be more detailed and precise to fulfill the need of complete record.

Top management (organization) organizational support for change is defined as the perceived facilitation provided by the organization to make users' adaptation to new system related change easier. The top management are well qualified to understand what the servant needs to know about using the new system. The quality of advice for their servant work with a good communication among the public servant. The organizational support will help users to adopt the new system by accumulating knowledge and experiences smoothly through education and training which will help the servants solve the problem they face in adapting to the new system [13].

Users refer to entity that has authority to use an application, equipment, facility, process or system. The most important element that must be considered when using new basis accounting is user [14]. Users in the organization play an important role when it comes to migration of new accounting basis. Therefore, they need to give full cooperation and commitment, build capability and have good teamwork with the colleagues.

Reliability analysis is carried out to check the consistency and stability of the factors. The closer the Cronbach's alpha is to 1, the higher the internal consistency reliability [15]. The results in Table 4 below indicate that Cronbach's alpha coefficient is above 0.846, which means that the reliability of the questionnaire is attained.

TABLE 4: RELIABILITY STATISTIC FOR THREE MAIN FACTORS

Main factors	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	Number of items
Policies and procedures issue	0.886	0.887	5
Top management issue	0.846	0.850	3
Users issue	0.921	0.921	4

Conclusion

The findings suggest that the government should play a more proactive role to ensure that accrual accounting in Malaysia is successfully implemented. This is due to the challenges faced by government officials on its implementation. For that, the government needs to improve the weaknesses of current policies and procedures and generate the awareness among top management and government servants on the benefits of accrual accounting. For example, more courses/training for government servants should be provided since these courses are able to change their mind set. Furthermore, the general consensus amongst both the government and its servants will become an important management tool to enhance transparency and accountability, especially in the public sector. In this regard, in year 2015, Malaysia is expected to be able to fully implement accrual accounting for the benefits of government servants.

For the limitations of this study, the sample selected is only focused in one location, which is the AGD, Putrajaya, as it is the headquarters of the AGDs in Malaysia. Other samples from other AGDs should be considered in future studies in order to obtain an overall perception of the accountants in Malaysia. For example, the AGDs in East Coast, which are located in Pahang, Kelantan, and Terengganu, or AGDs that have a higher score for accountability index. Another limitation is that only questionnaire method is used to collect data. Interviews can also be used to collect data from the respondents regarding their perceptions on accrual accounting. This is because interviews may add an inner perspective towards the questions asked and clarify any doubt.

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