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**The Institutionalisation of Accrual Accounting:
Exploratory Evidence from the
Malaysian Public Sector**

by

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A thesis submitted in partial fulfilment of the requirements for the
degree of
Doctor of Philosophy in Accounting

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DECLARATION

The work in this thesis was developed and conducted by the author between October 2013 and March 2017. I declare that, apart from work whose authors are explicitly acknowledged, this thesis and the materials contained in this thesis represent original work undertaken solely by the author. I confirm that this thesis has not been submitted for a degree at any other university.

Parts of this research have been presented on several occasions, including:

1. The Reform of Accounting Practices in Malaysian Public Sector
In: 15th Biennial CIGAR (Comparative International Accounting Research) Conference 2015, University of Malta, Valetta, Malta.

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ABSTRACT

Motivated by unresolved debates on the appropriateness of accrual accounting in the public sector context and limited empirical support justifying its suitability within developing countries, this research seeks to fill such important knowledge gap. It expands the ongoing interest in the development of public sector accounting by focusing on an in-depth exploration of contextual interactions between institutions and processes of accounting change in one of the developing countries, Malaysia. As Malaysia is currently undertaking a radical accounting reform at the federal level, the research explored how it becomes institutionally embedded within political and administrative structures. By applying Critical Realism and Institutional Theory as theoretical lenses, this research employed qualitative strategies for primary and secondary data collected at lead agencies and three selected ministries. These include a thorough review of government documents, interviews with key actors and observations of their responses towards reform activities. The analyses 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 revealed the difficulties in complying with the International Public Sector Accounting Standards requirements, especially by organisations with distinctive assets where the relevant government policies still appear ambiguous. 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. Therefore, rather than functioning as a management tool, accrual accounting has become a political tool. 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.

Keywords: new public management, accrual accounting, institutionalisation, developing country, Malaysia.

LIST OF ABBREVIATIONS

| | |
|---------|--|
| ADB | Asian Development Bank |
| AGD | Accountant Generals' Department |
| AAIC | Accrual Accounting Implementation Committee |
| CA | Chief Accountant |
| DG | Director General |
| DCA | Department of Civil Aviation |
| ETP | Economic Transformation Programme |
| FGoM | Federal Government of Malaysia |
| FGAAM | Federal Government Accrual Accounting Manual |
| FMIS | Financial Management Information System |
| GASAC | Government Accounting Standards Advisory Committee |
| GDP | Gross Domestic Product |
| GTP | Government Transformation Programme |
| GNI | Gross National Income |
| GFMAS | Government Financial Management Accounting System |
| GFS | Government Finance Statistics Manual |
| IFAC | International Federation of Accountants |
| IFRS | International Financial Reporting Standards |
| IMF | International Monetary Fund |
| IPSAS | International Public Sector Accounting Standard |
| IPSASB | International Public Sector Accounting Standard Board |
| MoF | Ministry of Finance |
| MPSAS | Malaysia Public Sector Accounting Standard |
| MPS | Malaysian Public Sector |
| NEAC | National Advisory Economic Council |
| NEM | New Economic Model |
| NHS | National Health Service |
| NKRA | National Key Result Area |
| NPFM | New Public Financial Management |
| NPM | New Public Management |
| OECD | Organisation for Economic Co-Operation and Development |
| PAC | Public Accounts Committee |
| PEMANDU | Performance Management and Delivery Unit |
| PFA | Public Finance Act |

| | |
|--------|--|
| PFI | Public Finance Initiative |
| PFM | Public Financial Management |
| PPP | Public-Private Partnership |
| PSAR | Public Sector Accounting Reform |
| PWD | Public Works Department |
| RAB | Resource Accounting and Budgeting |
| RA | Resource Accounting |
| RC | Responsibility Centre |
| SAD | Self-Accounting Department |
| SG | Secretary General |
| SPA | Sistem Pengurusan Aset (Asset Management System) |
| UNCTAD | United Nations Conference on Trade and Development |
| VPSD | Valuation and Property Service Department |
| WGA | Whole of Government Accounting |

CHAPTER 1

INTRODUCTION

1.1 PERSONAL MOTIVATION

“..the possibilities for new accountings, let alone the practices of today, are shaped by socio-political values, legal presumptions, modes of bargaining, statutes and governmental regulations and a whole array of other institutional practices and bodies of knowledge that tie accounting to the contexts in which it operates.”

(Hopwood, 1992, p.128)

The researcher previously had an accounting career in the private sector, spending four years, from 2000 to 2003, as an auditor in an international audit firm, Ernst & Young. During this period, she embraced the experience in auditing the financial statements of various business corporations and observed the tedious process involved in preparing and maintaining accounting information under accrual accounting approach. This also provided her the opportunity to understand the incentive impact of having accrual accounting information, particularly in performance measurement, financial management and asset management for profit maximisation.

Starting from 1 May 2003, she began a career in the civil service of Malaysia. During the period as the Chief Assistant Director, who is responsible to manage budgeting and procurement for the Accountant General’s Department (AGD), she discovered inefficiencies in the management of the government assets and various deficiencies in budgeting practices, leading to the wastage of public resources. From previous experience, problems such as these rarely occur in the private sector. In addressing these deficiencies, the top management of the AGD expressed a desire to emulate the private sector accounting model in Malaysian public services. The AGD then put forward a conceptual plan on accrual accounting migration in 2008 to the National Treasury, but the suggestion could not be materialised at that time. It was only after the recommendation was made by the National Advisory Economic Council (NEAC)¹ in 2010 that the Malaysian government agreed to adopt accrual accounting together

¹ NEAC is the ‘independent think tank’ which was set-up by Prime Minister, Dato’ Sri Najib Tun Razak to review and propose new ideas on long term economic plan to transform Malaysia into a higher income nation.

with other financial management initiatives under the radical² transformation programme. Although the researcher is of the view that accrual accounting was the best option that the government can opt for in financial reporting, there were aspects of the reform plan that intrigued her.

Given the challenging experience in verifying the private sector's financial statement in various industries in the past, she wondered how the government deals with various detailed reporting requirements imposed by accrual accounting, especially when the nature of its operation is identical to a private sector environment. With a relatively larger size and enormous economic transactions, it is controversial why the government announced the radical transformation plan when many public organisations do not seem ready in terms of technical capacities. With too many reform initiatives held concurrently, how would civil servants cope with the additional responsibilities relating to these reform efforts under a tight deadline? Moreover, why did the government introduce a new financial reporting approach when the public managers seemed laid back about the existing financial management deficiencies highlighted in the Auditor's General report? Prior to this, they hardly use accounting information in decision-making and management process. Hence, it is doubtful whether a new set of practices could encourage the public managers to fully utilise the new accounting information to overcome the existing deficiencies. These are some important questions that led to this research. The next section will provide an overview of the background of Public Sector Accounting Reform (PSAR), and the recent research problems that motivate this research, eventually leading to the research questions.

1.2 RESEARCH BACKGROUND

In the past three decades, accrual accounting appeared as an essential ingredient in the Public Financial Management (PFM) reform programmes. It reflected the belief that this is the key to resolve various financial management deficiencies on a similar basis with the private sector through comprehensive information, allowing rational decisions for better economic condition (McCulloch and Ball, 1992; Likierman, 2003). Moreover, within the current global financial climate, there is a growing attention on public governance, emphasising financial sustainability which requires accounting information that can support resource allocation in a more transparent and efficient way, as well as one that can stimulate performance effectively (Ball, 2012; Hyndman

² Greenwood and Hinings (1996) refers radical change as the transition from the existing archetype of organising to a completely new one.

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). Regarded as the 'technical lifeblood' of New Public Management (NPM) (Guthrie, Olson and Humphrey, 1999, p. 211), they continued to apply the same approach for the whole financial decision-making process. This trend has spread to 'developing countries'³ including Thailand, Indonesia and Malaysia.

Reflecting on this global movement, extensive research has been done in 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. The aspects of economic, social, political and cultural context may have a significant influence on the speed, content and effectiveness of the reform. As such, Malaysia fits a typical example of a developing country trying to adopt accrual accounting as part of its PFM reform plan. In fact, it has been at the forefront of NPM reforms among developing countries (World Bank, 2000).

Striving to achieve the status of a developed nation by 2020, the Prime Minister of Malaysia in 2010 announced the government's plan to transform its financial reporting basis from a 'modified cash-based'⁴ to accrual accounting. Similar to developed nations, the primary thrust of this reform is to provide a comprehensive and more accurate picture of the financial position of the government. In doing this, all agencies

³ 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.

⁴ The modified-cash based under Malaysian approach implies that transactions are recognised when the associated cash flows occur, with the exception on the record for cash outflows occurring usually a month after year end, which relate to events that occur in the reporting period.

at the federal level will prepare the financial report in a new format according to the International Public Sector Accounting Standards (IPSAS) framework starting from 1 January 2015 (Treasury, 2013). Then, this new accounting information will support the implementation of Outcome Based Budgeting (OBB) two years after its full adoption. With the close integration between accounting information and budgeting, the government claims that it would not only help to strengthen fiscal policy and foster better financial planning, but would also enhance performance measurement for better accountability in public services delivery.

Despite the substantial claims and promises of accrual accounting superiority, its suitability has been widely debated. Prior work has shown accrual accounting paucities for PFM purposes (Guthrie, 1998; Pollanen and Loiseau-Lapointe, 2012); yet, curiously, developing countries still decide to commit to this initiative. As research on the application of accrual accounting in developing countries is relatively sparse, the issue on whether contextual differences would create a different experience at various paces is very much a question for empirical research. Moreover, Broadbent and Guthrie, (2008) suggested that instead of overstating potential impact, further examinations on the applications of accrual accounting are needed, especially on the behaviour of the actors involved in implementing such tools. This raises the importance of viewing accounting as a social practice, especially on the issues of how and to what extent, the key actors (potential users and producers of accounting information) respond to realise the radical transformation intention in developing countries like Malaysia. The next section will highlight why it is important to address these issues.

1.3 RESEARCH PROBLEMS

Given that the differences in accounting practices could potentially affect the government's financial decisions, which in turn, influence the quality of national governance, the choice between cash or accrual accounting basis in the public sector is not trivial. Regarding this, Carlin (2005) revealed that debates continue to erupt from NPM field on the merits of both 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 PFI transaction, which often require significant amount of public monies. With the growing concern on financial sustainability, demanding better management of resources – assets, liabilities and revenues, 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 application of accrual accounting would remedy all these restrictions, thus heralding an era of accrual accounting for the public sector.

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) 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. Given the limited empirical studies in developing country to support this condition, prior research urged that we should give full explanatory weight to developing countries to conceive the full gamut of the reform experience.

Ironically, the introduction of the radical shift to accrual accounting among many developing countries including Malaysia happened at the very time that most of the early adopters recorded the failure to achieve the intended aim. The period given for the changes in Malaysian Public Sector (henceforth MPS) 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. According to Isa, Salleh and Jusoh (2011), a majority of civil servants in Malaysia are ready to strongly commit to, and embrace these changes. Siddique (2010), however, argued that the Malaysian government has struggled previously to implement NPM initiatives due to the lack of commitment from political and administrative leadership and various shortcomings in organisational culture. 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's

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.

Moreover, prior 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). According to 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 as addressed by Greenwood et al. (2011). In their research, they highlighted that the complexity occurs when the actors hold opposing interests and expectations on the existence and appropriateness of certain logics. Some actors may prefer to conform to prescriptions of the new efficiency logic⁵, which is buttressed by accrual accounting and emphasise business-like principles—effectiveness, transparency⁶ and accountability. Others may simultaneously resist and cleave to the old social welfare logic which accorded by modified-cash. This will affect how organisations respond to institutional change (Pache and Santos, 2010). 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 Malaysian public sector requires a detailed scrutiny. Together, the failure track record, the tight deadline, the complexity of the accrual accounting approach itself, and the adoption of IPSAS framework, seem to pose major challenges to the reform actors. As 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 change processes. How does the contextual environment of Malaysia frame the responses of actors on the changes in the long-

⁵ Logics are defined as "the socially constructed, historical patterns[s] of material practices, assumptions, values, beliefs and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality" (Thornton, 2004, p.69).

⁶ The research found that the meanings of the transparency have remained ambiguous. Hence, this research refers to transparency as defined by Hood (2001, p.701) as, "government according to fixed and published rules, on the basis of information and procedures that are accessible to the public, and (in some usages) within clearly demarcated fields of activity'.

established social welfare logic? This has drawn the researcher's attention to both, the controversial subject of PSAR and the rapidly growing institutional complexity perspectives. The next section explains how such issues will be tackled in this research.

1.4 RESEARCH AIM AND QUESTIONS

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 PSAR 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 organisations manage, and responses⁷ to any potential institutional complexity during the transition period, in which they may experience incompatible prescriptions arising from the existence of social welfare logic and efficiency logic concurrently. With its focus on inter and intra-organisational phenomenon, this research endeavour requires understanding in the details of the organisational field⁸ and organisational level. The above concerns are explored via the following questions:

Question 1: What are the expectations of users⁹ of accounting information with regard to the value of accrual accounting in the Malaysian government?

Question 2: How do different public sector organisations manage and respond to the process of transition from modified-cash accounting to accrual accounting?

Question 3: What lessons can be learned from the Malaysian experience regarding the value of accrual accounting adoption in the public sector?

⁷ 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.

⁸ 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.

⁹ The concept of users of government's accounting information in the public sector is too broad. It covers internal and external parties including the public managers, general publics, suppliers, international banks and politicians. Therefore, the research limits the analysis to focus on the actors involved directly with public financial management decision making, putting the spotlight on politicians and public managers.

1.5 STRUCTURE OF THE THESIS

In light of the above background, the principal argument of the thesis, will unfold in the remaining seven chapters. Chapter Two presents a review of literature on PSAR, which has been constructed to include how the public sector differs from the private sector. The specific impacts of accrual accounting and IPSAS reporting framework over these changes are also reviewed to provide insight into current practices and underline why the public sector requires better accounting approach based on the experience of early reformers. This helps to provide the rest of the thesis with an indication of what are the perceived roles of accrual accounting and its actual achievement thus far, which together provide the 'interpretive framework,' objectives and instruments of government accounting policy, and the institutions of NPM's approach in gaining efficiency in financial governance. One general viewpoint that each perspective has come to share over the course of the recent accounting reform, however, is the perception that accrual accounting, albeit for different reasons, is once more in crisis.

This thesis has been structured to take into account the idea that change, cannot really be understood, or indeed, measured if there is no in-depth understanding of the starting position that happened before the transition process. Chapter Three, therefore, expands on the empirical setting of the research, discussing on the general background information about Malaysia. It offers an overview of the Malaysian setting from three different aspects; political, economic and cultural, as well as elaborating on Malaysian's PFM before the accounting reform takes place. This is to help the research interprets the key drivers of accounting reform and the contextual setting of this research.

Chapter Four provides an outline of the research techniques and the methodological position adopted in this research. It seeks to elaborate on a theoretical framework that combines the ontological depth of critical realism (CR) and the robust conceptual approach of institutional theory. The evaluation grounded in critical realist metatheory that emphasise rigorous forms of data interpretation based on stratified level of reality with retroduction concept connecting the transitive and intransitive dimensions. This is to enhance the attempt to understand the multiple meanings of reform actors experience and the detailed conceptualization of the complex and messy scenario of the governmental changes process. Conventional approaches to evaluation of the suitability of accrual accounting in public sector are shown to act as limited forms as it emphasise anticipated outcomes and predetermined criteria but offering little

explanation and understanding. Critical realist evaluation is shown to broaden the scope of changes outcomes and deepen understanding, whilst simultaneously acknowledging the implications of complexity in developing multiple, plausible explanations. Besides critical realism, the research extends the institutionalisation¹⁰ framework particularly the work of Greenwood and Hinings (1996) and Dambrin et al. (2007), by viewing their approaches as complementary, in the way proposed by Greenwood et al. (2011). The concept of institutional logics offers a foundation to theoretically explain the heterogeneity in the organisational response under the condition of multiple logics. The chapter also describes how a qualitative approach with case studies assists in defining the research questions and demonstrate how the data was collected before delineating the method in which the data was analysed.

Chapters Five and Six are the empirical chapters of the thesis covering the stages of initiation, imposition, internalisation and outcome of the change. Chapter Five provide more details about the way accrual accounting approach were developed and initially operated at the field level. It soon moves on to Chapter Six, discussing the emergence of various challenges to the changes in accounting practices and financial governance, and, in response, a high degree of resilience within the various levels within government organisations. In this case, the process of accounting change in Malaysia is examined by attentively focusing on the strategy prepared in the field (the restructuring of human resource, data management, development of the new accounting regulations and accounting systems to support new managerial practices) and the strategic organisations' responses at the three selected ministries during the internalisation stage.

A critical analysis and detailed discussion of the main findings are then presented in Chapter Seven. The analysis is based on the research questions and events that occur at the three selected ministries, which provides not just the illustration, but also an amplification of the original theoretical framework. Although an aspect of this framework is previously discussed in Chapter Five, Chapter Seven reflects a more in depth discussion, particularly, on the iterations process of change and the differences between each organisations in the ways the change has evolved. It does so by looking back at each of the sections in the empirical chapters by considering how best to understand how and why accounting reform evolved through the prism of the theoretical framework.

¹⁰ In defining the institutionalisation, Meyer and Rowan refers to the process by which social processes, obligations or actuality become as rule-like status in social thought and action' (1977, p. 341).

The concluding chapter will briefly look into some of the implications of the findings of this thesis for the ways in which we can understand Malaysia public sector's accounting today as well as for the literature reviewed in Chapter Two. It will, however, also eke out further implications of those theoretical concepts, conflicting logics and political power that have largely underpinned the framework of analysis used here. Additionally, it provides the limitation of this research and suggestions for future studies.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews the literature on accounting development in the public sector that sets the context for this research. Following this introduction, an in-depth research of the features, objectives, and bases of governmental accounting is given in Section 2.2. It also discusses the merits and weaknesses of cash accounting and accrual accounting approach in public sector environments. Section 2.3 proceeds with the nature and the perceived role of accrual accounting. It also provides the review of the literature on the relationship of PSAR within the larger scope of NPFM and NPM. This is followed by an examination on the practicality of the application of IPSAS framework as part of the reform in subsection 2.3.2. Going beyond the scope of Malaysia alone, subsection 2.3.3 covers the review of the diverging reform approaches in two developed countries; New Zealand and the UK, classified by Hood (1995) as the high-intensity adopters of NPM style. The researcher also selected to review the changes in government accounting in Indonesia, as it is one of the developing countries that has completed the process of accrual accounting's transformation. Moreover, Indonesia possesses similar cultural and historical background together with some similar features in public administration with Malaysia. The literature review then covers the debate on the implications of accrual accounting within the PFM sphere in Section 2.4. The final section then provides the summary of this chapter.

Accounting is specifically a critical component in the management of organisations, and in a broader sense, the organisation of human activities. The Statement of Basic Accounting Theory (ASOBAT) defines accounting as "*...the process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by users of the information...*" (AAA, 1966 cited in Jones, 1992, p. 249). From this definition, accounting has three main functions: ascertaining, evaluating and communicating. Although it involves three different activities, these activities share something in common; human judgement from the producer and user of the financial information. When it deals with many human judgements, Hopwood (1987) argued that the accounting practice is not a neutral process. Rather than treating accounting as technical isolations, he suggested that it should be understood as a

social practice that influence and is being influenced by the social environment. In a similar vein, Lavoie (1987) argued that the power of accounting in overall economics process lies in its capacity to reflect the reality in two interrelated components. One is the purely calculative aspect revolving around the valuation of monetary and non-monetary item, and the other, the non-calculative aspect of accounting involving interpretation and interpersonal communications. Acknowledging the vital role of accounting in constructing and representing the reality, Lavoie (1987) therefore stressed that accounting process requires close acquaintance from its participants to do sense-making on the intrinsic characteristics of the object, and its relationship with the external reality.

However, evidence shows that to link the objective and subjective aspect in recording economic transaction has never been easy or free from difficulties. Prior studies showed that this offers distinctive challenges, especially for the public sector, as they have to deal with complex governmental activities that involve many inter-related transactions and the unique nature of assets. For items that readily have economics values, the measurement process is less complicated as it involves direct arithmetic calculations. However, items related to social and cultural development purposes will certainly require an intricate process. For example, Hooper, Kearins and Green (2005) highlighted that the museum and public library are more concerned on the aesthetic, historical and cultural value of its cultural collections and manuscripts, hence rendering economics values inappropriate for these items. Furthermore, the underlying problem of deciding what can and should be quantified in public sector accounting persists, creating a greater ambiguity for its application (Carnegei and West, 2005; Arnaboldi and Lapsley, 2009; Lapsley, Mussari and Paulsson, 2009). These literature indicate that the task in accounting are challenging and sometimes invite controversies, thus besetting thorough discussions done in the effort to connect numerical values to the people and management processes. This process demands an understanding on how accounting functions in a specific domain, which will be discussed in the following section.

2.2 COMPARISON BETWEEN PUBLIC SECTOR AND PRIVATE SECTOR

In this section, the prominent features of public sector and private sector domain will be highlighted before distinguishing between public sector accounting and private sector accounting. Although the calls have been made for governmental financial reports to embrace private sector accounting practices in the public sector environment for better managerialism since the last three decades (Hood, 1995;

Guthrie, Olson and Humphrey, 1999), prior literature suggest that such idealism is critically influenced by the environments and institutions in which it is operated. For example, Laughlin (2008) argued that the accounting and financial reporting framework for each sector is highly dependent on the characteristics of the sector and the particular needs of its user. Hence, the understanding on both contexts at this level is important especially when this research view accounting as a social practice.

2.2.1 Nature of the Public Sector and Private Sector

The public sector is defined by Broadbent and Guthrie (1992, p. 3) as a 'part of a nation's economic activity which is traditionally owned and controlled by government'. This definition hints on the vague ownership and large organisational structures in which public sector operates; comprising all governmental units at the federal, states and local levels. Moreover, according to Barton, (1999; 2009), the primary objective of these governmental units is to satisfy public welfare by providing collective services and infrastructure such as health and education, the maintenance of national security and the conservation of the historical and natural environment. In enabling them to cater to such critical functions in a large scale, each public organisation requires a set of operational system and various type of assets. This often involves a high fixed cost, yet indeterminable services prices. Therefore, most public organisations operate within a monopolistic market and are given the power to raise the financial resources in the country to meet all these needs (Pallot, 1992). Hence, most government funds are contributed by the public through payment of fees, duties, levies and taxes, which entitle the public to receive a range of goods, utilities and services in return.

Meanwhile, the private sector is composed of organisations that are privately owned, varying from sole proprietorship, partnership, to large corporation with many shareholders (Boyne, 2002). They often operate in the context characterised by resource constraints and intense market competition, hence their aim is to maximise profit (van Helden and Reichard, 2016). For example, the manufacturing, hotel and banking sectors; in which many private entities offer similar products or services. In this circumstance, each entity will strive to produce better product or service delivery and achieve better efficiency in managing its resources to ensure they could offer a higher return to its shareholder's investment (Barton, 1999). It is from this we can derive the

essential difference between accounting for private sector and for public sector.

2.2.2 Accounting in the Public Sector and Private Sector

As both sectors require financial resources to operate their organisations, the primary function of accounting as a managing tool in the public sector and private sector environment is further emphasised. The internal and external stakeholders from both sectors want to know how the organisation utilises funds, based on the historical financial performance and financial position of the organisation. For this purpose, a specific accounting system to record and to report all the economic transactions in a systematic way is required. However, since the two sectors operate in a different context, a majority of public sector accounting scholars, including Barton (1999) and Robb and Newberry (2007, p. 727), argued that “government is significantly different from a business, and the purpose of governmental accounting also differs significantly”. In contrast, others argued that the role of accounting in public and private sector is similar, hence they recommended sector-neutrality principles (Mellor, 1996; Micallef and Peirson, 1997). Thus, the next paragraph will summarise the commonalities and differences between these two sectors in terms of the role of accounting, users of financial information and content of financial statement.

2.2.2.1 Role of Accounting

As highlighted earlier, due to the scarcity of financial resources and stiff competition, the main focus of the private entity is on economic efficiency. This could be achieved by producing higher quality of services or larger number of products at a lower cost. Since cost reduction is the key ingredient to their business survival and growth, the top management of private organisations will demand the recent and accurate financial information, produced by accounting system, to closely monitor their performance in business operation (Andrews, Boyne and Walker, 2011). Besides operational decision-making purposes, the shareholders need the accounting system to properly reflect on the historical financial information in order to measure the performance of top management in operating the business (van Helden and Reichard, 2016). If the management fails to generate sufficient profit

and the return on the equity, the shareholder could decide to change the manager or sell their ownership in that company. Since money is the end target for a private organisation, the role of accounting is vital as a medium to control the managers' behaviours and as the main crux for financial decision-making.

In contrast, money is seen as the means to an end in public sector, which is to fulfil various social obligations, especially when there is no other organisation providing the same services or infrastructure as they can afford to offer (Pallot, 1992; Bandy, 2015). Although the government is required to fulfil various public needs, they are given the privilege to utilise the whole country's financial resources. Hence, the main role of accounting system is not narrowed to profit determinations, instead it is used to facilitate sound financial management and to empower the accountability between public managers and parliamentary (Chan, 2003). Although the public managers have remote incentive to control the pattern of expenditure, these roles reinforce each other mainly for parliamentary control purposes, especially under a democratic constitution, whereby no public monies should be spent without or beyond annual parliamentary appropriations (Broadbent and Guthrie, 1992). This is essential as the expenses incurred by a government is funded by the public through tax collection. In the absence of profit motive and competitive market condition as that exist in the private sector, Bozeman and Scott (1996) found that the operations of government are always associated with inefficiency, especially bureaucratic red tape. As will be explained later, the difference in the role of accounting appears as a source of tension for the different outcomes from the same management techniques and reporting practices.

2.2.2.2 Users of Financial Information

Prior literature highlighted the variety of users of the government financial information with divergent and sometimes, conflicting interests. Back in the 1980s, the Canadian Institute of Chartered Accountant tried to identify the potential users of the financial statement for the federal government, which include: legislators, policy makers, administrators, analysts, investors and the public (Jones, 1992). From this list, some

scholars argued that the primary user is the general public who are interested in assessing the quality of public governance (Bovaird and Loffler, 2003; Osborne, 2010). Yet, Jones (1992, p. 262) claimed that “the publication of financial reports is not in the public interest because the public has no interest”. Moreover, Lapsley (1988) argued that the list of potential users and their needs remain inconclusive due to the ubiquity of the function of the government. Supporting this point, Jones and Pendlebury (2010) found that the list of users and their requirement is different from one country to another. Given this condition, prior studies suggested that the identification of the primary users of accounting reports in the public sector and their exact needs is complicated. Consequently, these have caused the preciseness of financial reporting framework in the public sector and its usefulness to remain uncertain.

In contrast, the users and the roles of financial information in the private sector are easier to determine, depending on their interest as related to the business entity. According to Barton (1999) the main users include the shareholders, creditors, debtors, employee and government. The shareholder is interested in profit and dividend that the firm could generate, the creditor on the ability to pay, the debtor on the capacity to give longer credit term, the employee on the sustainability, and the government for tax collection purposes. Given this condition, many scholars argue that the content of financial statement for the private sector is more objective, thus making it easier for them to fulfil the user’s needs.

2.2.2.3 Content of Financial Statements

For both sectors, the reporting entity is required to prepare a set of annual financial statement. Typically, the government financial statement is used to present financial information to the parliament and public as required by the statutory law, showing how the public funds are being utilised and the deficits or surpluses from such use (Broadbent and Guthrie, 1992). Therefore, cash-based reporting was appropriate and sufficient to satisfy their needs to ensure compliance and control. Whereas, in the realm of the private sector, the fundamental values of accounting report are to determine profit and the rate of return on capital

(Roberts, 1991). The internal users may use this report for decision-making, while the external users may utilise it for the assessment of sustainability and financial healthiness of the entity (Andrews, Boyne and Walker, 2011). Due to stronger and specific incentives to use the financial statement in private entities, the users in private sector needed a comprehensive report, in which, accrual accounting approaches were believed to be able to fulfil such intentions.

According to Pallot (1992), as every sector has a different aim and different users with different requirements, these factors have resulted in different accounting approaches. Cash and accrual accounting approaches are distinguished by the point of recognition on non-cash transactions. In the former, the transaction is recorded according to the time cash is exchanged while in the latter, the transaction is recognised in the period to which it occurs, regardless of the cash movement (Guthrie, 1998). Hence, under cash-based reporting, the entity will only record the expenses once it is paid and revenue when it is received, whereas, in accrual accounting approach, the expenses will be recognised once it is incurred and the revenue when it is earned. From this, the research summarised the dissimilarity of items presented in a financial statement according to accounting approach in **Table 1**.

Since the 1980s, the official rhetoric claimed that accrual accounting could provide an accurate assessment of the full cost of service provision and better indicator of the efficiency of government's programme to support NPM's reform agenda (Hood, 1995). This is especially so to include another two major elements in the financial statement, which is the Balance Sheet and Statement of Changes in Equity (**Table 1**). Regarding this, Chan (2003) reminded that the most controversial issues on the accounting reform in public sector lies in the Balance Sheet, which requires the government to capture the information of assets and liabilities. Do these changes contribute to a better functioning of accounting in enhancing the government's responsibility in public service delivery? The following paragraph will elaborate this point.

| Private Sector (Accrual Basis) | Public Sector (Cash Basis) | Public Sector (Accrual Basis) | Purpose |
|---|---|---|---|
| Profit and Loss Statement | Statement of Cash Receipt and Payment | Statement of Financial Performance | To provide information on the total costs and revenues to operate the entity. |
| Balance Sheet* | <i>Not Available</i> | Statement of Financial Position | To provide information on assets, liabilities, and equity, which indicate the net worth of the reporting entity and provide the link between the operations of agencies from one period to the next reporting period. |
| Statement of Changes in Net Assets/Equity* | <i>Not Available</i> | Statement of Changes in Net Assets/Equity | To provide information on the linkages and the effect of current year performance on the accumulated equity |
| Statement of Cash Flow | Statement of Cash Flow | Statement of Cash Flow | To provide information on the ability of the reporting entity to generate cash and cash equivalents and how they utilise those cash. |
| Not Applicable | Statement of Comparison of Budget and Actual Amount | Statement of Comparison of Budget and Actual Amount | To provide information on the actual resource utilisation as compared to the budget given. |
| Notes to financial statements <i>*New Item after PSAR</i> | Notes to financial statements | Notes to financial statements | To provide a detailed explanation on the item disclosed and items not presented in the Statement of Financial Position, Statement of Financial Performance or Statement of Cash Flow. |

(Adapted from: Guthrie, 1998; IPSAS 1)

Table 1: Summary of the Content of Financial Statement

2.3 PUBLIC SECTOR ACCOUNTING REFORM

Prior to PSAR, the government across the world used either cash accounting or modified-cash as a basis for recording and preparing financial reports (Lapsley, Mussari and Paulsson, 2009). Similar to private sector practices, they believe that the new accounting approach will extend the content of existing governmental financial report to include information that delineate the operating and capital expenditure indicating the governmental financial position in short term and long term (Mellor, 1996). This includes the information on debt for debt management and the asset for resource management which is critical in strengthening the internal control and avoiding misappropriation in the public sector. Therefore, the proponent claims that the more accurate and detailed disclosure provided by accrual accounting would ameliorate the opportunity for better-informed financial decisions and greater efficiency (Mellor, 1996; Likierman, 2003; Heald and Georgiou, 2009).

Consistent with that, many governments appear to adopt the accrual accounting approach. In the late 1980s, the applications of accrual accounting are central to the public management in New Zealand and Australia. They were classified as 'leading proponents' by Guthrie (1998, p. 1). The trend has been followed closely by other Anglo-Saxon nations including United Kingdom in the early 1990s, before it gradually shifted to developing countries including the Philippines and Indonesia in 2000s (Harun, Peurseem and Eggleton, 2012; Jones et al., 2013). The recent research of the latest trend of governmental accounting practice by Christiaens et al. (2015) revealed that there is a great diversity of governmental accounting approach implemented by the 59 countries across the world. Some developed countries chose to fully adopt the accrual accounting approach in reporting and decision-making for greater efficiency. Most of the African countries, however, remain sceptical on the suitability of accrual accounting in the public sector and avoided the reform. Meanwhile, some other European Continental Countries chose to have a dual accounting system whereby two versions, cash and accrual basis, are available simultaneously.

However, based on the adoption of dual reporting by the government of Canada, Pollanen and LaPointe (2012) revealed that such reporting systems has caused more confusion among the public managers. They had to deal with a vast amount of accounting report, in which they were expected to fully understand the accounting treatment between these two; causing them to revert to cash-based system in the decision-making process. Moreover, they found that this approach is inefficient due

to work duplication and the high cost for the government to maintain the two sets of reporting system at once. Given that every accounting basis has its own advantages and limitations in public sector, this issue merits critical scrutiny (Barton, 2007). Regarding the same, Pallot (1998) suggested that it is impossible to discuss accounting reform in isolation from the overall public management practice. Thus, the next subsection will summarise what has been discovered from previous research on the relationship of accrual accounting within the larger domain of NPM. This is important in order to provide a contextual backdrop for the reported empirical research and to note some potential roles and uses that shape the future development of accrual-based in governmental accounting.

2.3.1 Relationship between NPM, NPFM and Accrual Accounting

An early wave of accrual accounting adoption in the public sector has been associated with the NPM agenda. First coined by Hood (1991; 1995), NPM is grounded in an effort to achieve economic efficiency and accountability purposes. The diffusion of NPM ideas began in the 1980s after a long World War II period when most of the members of OECD countries shifted their existing PFM paradigm from traditional military-bureaucratic to be more market-driven, emphasising business-type 'managerialism'¹¹ and 'economic rationalism'¹² (Hood, 1995; Olson, Guthrie and Humphrey, 1998). There was also the fiscal crisis (Pallot and Ball, 1996) and the increasing size of the public organisations (Broadbent and Guthrie, 1992). As a response to post-war conditions and economic pressures calling for a new public service culture, these countries seek to apply private sector's values, principles and instruments to overcome fiscal stress and address deficiencies in PFM. They believe that these will promote competition and improve government's effectiveness in the economic performance (Pollitt, 2000). Since then, this has become a catalyst for change in public administration policy and financial management techniques in many countries.

¹¹ As referred by Hood (1991; 1995), managerialism is a set of administrative reform doctrines drawing on private sector business model in the pursuit of public sector effectiveness, for better performance. Based on UK's experience in the 1980s, Hood outlined that this idea requires development of appropriate cultures that prioritise professional management and technical expertise in managing organisational performance by continuously measure the result. However, this set of management practices is not fixed and evolves reflecting the current need of society.

¹² Economic rationalism relates to the decision-making process aiming at cost-saving and doing more with less in public service delivery for greater efficiency. In doing so, each public sector's activities need to be costed and evaluated through accounting technique before being compared against targeted volumes, cost of units produced and service/product quality (Hood, 1995).

Supporting the NPM's agenda, NPFM is a collective term used to classify the management's reform initiatives based on private sector's best practices focusing on financial areas. Based on the comparative research of reform practices at the eleven OECD countries, Guthrie, (1999) classified the variation in reform activities into five main strategies, which guide the NPFM framework. These include the: changes in governmental financial reporting systems, expansion of commercial-minded and market-based management systems for the pricing of public services delivery, development of performance measurement approaches, decentralisation of budgets and integrated financial management systems, and changes to public sector audits. Since all these activities emphasise economic efficiency, the government believes that the information produced by accrual accounting is a fundamental tool in NPM. Indeed, without accrual accounting, NPM would be more circumspect in scope (Guthrie, Olson and Humphrey, 1999; Liekerman, 2003).

Recently, many governments claim that better financial reporting approach is required for a more challenging political and economic conditions. The public has imposed a high demand on the modernisation of public services, which often require higher budget allocation from the government (Lapsley, 2009). Moreover, they become more interested to compare the performance between the public and private sector as well as between countries (Jones et al., 2013). With the constraint in financial resources and multiple demands from the public, this has increased the challenges of managing public money. The government, therefore, tries to strengthen the control mechanism and enhance the PFM that emphasise on accountability and transparency through a more systematic and harmonised reporting framework.

According to Robb and Newberry (2007), the framework for financial reporting will focus on the fundamental concepts that underlie the accounting practices in identification, measurement and disclosure. Some government choose to adopt IPSAS (an adaptation of International Financial Reporting Standards-IFRS to a public sector context) as an alternatives to IFRS (purely adopted from the private sector). For the preparation of accrual accounting information, the producer was expected to fully comply with the stated rules or otherwise need to justify for any non-compliance. Since the decision in which accounting standard apply in the public sector is vital (Christiaens, Reyniers and Rollé,

2010), the research will review literature on accrual-based reporting in IPSAS framework. Moreover, this is important to provide the background knowledge on how accrual accounting has been translated into practice by the leading proponents previously. This will be the focus of the next section.

2.3.2 IPSAS as Accrual-Based Reporting Framework

Accommodating the need of governmental reporting environment requires the common conceptual framework as prescribed in the form of accounting standard. The standardised set of reporting is important for comparative and consolidation purposes (Jones, 1992; Moretti, 2016), especially in the governmental environment where the reform involves multiple sectors and a massive scale of organisational hierarchy. Furthermore, previous literature showed that the reform towards accrual accounting has heightened the diversity in the recording approach and reporting disclosures among the countries. According to Pina and Torres (2003), this diversity has raised the necessity for harmonisation of public sector financial reporting. This is particularly to enhance the quality, the understandability and comparability of governmental financial statements among different countries for macro-economic and micro-economic planning, as well as for financial assistance (Brusca, Montesinos and Chow, 2013; Rossi et al., 2016). Acknowledging all the benefits promoted on harmonisation, the majority of international bodies support this effort, which has consequently increased the adoption of IPSAS.

In supporting the increasing movement in harmonisation of accrual-based reporting, IPSASB under the auspices of IFAC devoted their effort to prepare the standard for the public sector. Until July 2016, 38 standards have been published since 1997, covering various accounting treatment, recognition and valuation criteria as well as disclosure guidelines. According to Lombrano and Zanin (2013), the standards have been developed based on the accounting framework applied in the private sector (IFRS), with some modifications for public sector's peculiarities and the experience of an Anglo-Saxon's accounting model. Hence, they try to include the features of harmonisation in three different angles: between a public and private sector (business entity), between financial and statistical reporting, and among governments internationally (Brusca, Montesinos and Chow, 2013). By doing this, IPSASB has received strong support from international accounting experts and has

shown its responsiveness to actively enhance the content of IPSAS for better acceptance.

However, prior literature indicated that the content and the strategy of IPSASB received many critics. For example, Benito, Brusca and Montesinos (2007) argued on the issues of two main characteristics of IPSAS. One is the influence of business accounting conceptual framework, which is not directly applicable to the public sector. This criticism is supported by Lombrano and Zanin (2013), based on a research on the application of IPSAS 6 (Consolidated and Separate Financial Statement). In their research, they found that only minor amendments were made to accommodate the specific needs and distinctive features of public organisations. Another comment about the IPSAS mentioned by Benito, Brusca and Montesinos (2007) concerns the influence of the Anglo-Saxon tradition. Although IPSASB claimed that the standard is based on early reform adopters' experience, most of these countries failed to show the benefit of accrual accounting even after three decades of implementation. Given this condition, the majority of European countries prepared their accounting reform without any reference to IPSAS (Christiaens, Reyniers and Rollé, 2010).

In the recent review of the trend of IPSAS adoption in 81 countries, Christiaens et al. (2015) revealed the mixed support, yet a rapid adoption among developing nations including Asian countries. The research found that some of the countries are convinced on the ability of IPSAS to enhance comparability and consolidation especially when the global institutions, including the IMF, promoted IPSAS among the EU members and developing countries. This is also to avoid from reinventing the wheel by utilising the knowledge of the technical experts available in IPSASB. However, some countries still choose to maintain their local accounting rules due to the fear of losing the authority held by local standard setters. Some others are sceptical of the IPSAS's content as the effect is relatively unknown, hence, may demand additional effort if they were to adapt the requirement imposed by IPSAS to the existing local requirement. The above situation indicates the dilemma faced by many governments on whether to apply 'sector neutral' standards as ruled under IFRS or the public sector accounting standards as prescribed by IPSAS. Yet, the private sector's accounting norms still exist in both choices,

which Ellwood (2003) and Robb and Newberry (2007) argued as inappropriate for the public sector sphere.

Although many governments are still searching for a more concrete evidence, little attention was given to studies on the effects of accrual accounting implementation in IPSAS framework. The studies undertaken by Bellanca and Vandernoot (2013) and Aversano and Christiaens (2014) are among the exception. Based on the application of three main standards concerning the format of presentation and disclosure in Belgium, Bellanca and Vandernoot (2013) found that the Belgian government did not fully comply with all these three standards which include: IPSAS 1 (Presentation of Financial Statements), IPSAS 6 (Consolidated Financial Statements and Accounting for Controlled Entities) and IPSAS 22 (Disclosure of financial information about general government sector). This study shares three main reasons for non-compliance. First, the extensive cost and time to fulfil all the requirements especially IPSAS 1, which covers the disclosure of the whole financial statement. Second, an inadequate regulation that did not fulfil the public sector requirement. Third, the complexity and abstract guideline leading to the public managers' reluctance in using accrual accounting information for decision-making. Regardless the various efforts given to comply with the IPSAS's requirement, they eventually found that the accrual accounting financial reports produced do not seem to interest the users.

Even though the argument given by Bellanca and Vandernoot (2013) above was not supported by a detailed investigation, their finding is consistent with the result shared by Aversano and Christiaens (2014) on the application of IPSAS 17 in the Italian government. In examining the impact of IPSAS 17 on the relevance of the information disclosed on asset in decision-making and accountability, Aversano and Christiaens (2014) found that the Italian government were uncertain on the accounting treatment for heritage assets. Evidence shows that the little provisions stated in IPSAS 17 for heritage asset are still insufficient to cater to the public sector's need. Thus, the actors faced difficulty in measuring and disclosing the value for heritage asset. Moreover, Aversano and Christiaens (2014) revealed that the compliance to such standard contradicted with the necessity to respond to the informational needs of the users. Therefore, they conclude that the incompatibility and ambiguity of some of the regulations provided by IPSAS resulted in the confusion and

the various interpretations that complicates the reform process. To avoid this scenario, Carnegei and Wolnizer, (1999) argued that the government need different accounting treatment for heritage assets as its nature is different from other types of governments' asset. Similar problems occurred in different countries, thus indicating that the existing IPSAS's regulation failed to fully cater to the public sector's practical needs. The above research provided a partial story, while studies on the whole implications of IPSAS on the reform process are still limited to date.

2.3.3 Comparative Studies on the Reform Experience

Considering the rapid trend in accrual accounting's adoption across the world, extensive research has been carried out by many accounting scholars to examine the process of transformation in the early-adopting countries. Although many countries have increasingly converged into the same accounting basis and the same framework, prior literature shows that the reform practices varied across nations, either in terms of strategy, speed or content (Pina, Torres and Yetano, 2009; Caperchione, Christiaens and Lapsley, 2013). Moreover, Olson, Humphrey and Guthrie (2001) reminded earlier that there is no perfect package that could fulfil the country's specific needs and therefore the outcome would depend on what is practiced in a specific setting. Under this subsection, the research will examine what have been reported by earlier literature regarding the earlier adopters' reform experience, particularly on: the reform strategy, the applied accounting standard, the barrier and facilitators. This will help to establish the specific domain for this research as prior literature suggests that the economic, cultural and political conditions have a strong influence over the adoption process.

2.3.3.1 The Case of Developed Nations

a) New Zealand

As recognised by many accounting scholars, New Zealand is the first country to adopt accrual accounting both at the national and agency level using a radical approach. According to Newberry and Pallot, (2005), the commitment towards accrual accounting started in the early 1980s initiated by the New Zealand Society of Accountant, aiming to improve the national economic condition and to enhance the public sector's performance. While the commitment was pledged earlier, the

special unit leading the reform at the central agency was only established in May 1984, which was two months before the general election. Five years later, in 1989 the government officially announced the adoption of accrual accounting through the endorsement of Public Finance Act (PFA) as part of the overall economic reform programme (Carlin, 2005). This document introduced the Resource Accounting and Budgeting (RAB), which emphasised on accountability in a more decentralised system, linking the accounting, budgeting and performance together, in the bid to establish a new PFM framework in New Zealand.

In accordance with the government's effort to reduce the differences between the private sector and public sector, all the departments and Crown entities prepared accrual accounting information based on the New Zealand GAAP¹³ (Robb and Newberry, 2007). Emphasising on sector neutrality principle, the whole accounting transformation process at the department level was completed in July 1991, two years after the issuance of the PFA (Barton, 2009). Shortly after that, the government produced its first financial statement for the whole of the government to the public, Crown Statement inclusive of approximately 3500 departments of states and Crown Entities¹⁴. According to Pallot and Ball (1996), the government believed in the capacity of consolidated financial statement to increase the potential role of accounting information as a management tool focusing on long-term fiscal consequences. They hope that this could enhance the overall assessment of the financial performance and public service for greater transparency by the public. Consistent with this intention, the Crown Report contained three main reports as presented by a private entity and another six detailed statements on the future commitments in both quantifiable and non-quantifiable format.

¹³ New Zealand GAAP is the common set of accounting standards for public and private sectors prepared by Accounting Standards Review Board.

¹⁴ Crown Entity is an organisation that forms part of New Zealand's state sector established under the Crown Entities Act 2004, a unique umbrella governance and accountability statute. It covers statutory entities, crown entity companies, crown entity subsidiaries, school board of trustees and tertiary education institutions.

After completing the reform on financial reporting, the New Zealand's government quickly turned to the broader reforms of PFM. Through the endorsement of the Fiscal Responsibility Act 1994, they continued with the transformation of budgeting and appropriation from cash budgeting into accrual basis for the entire central governmental unit (Pallot, 1998). The Act requires governments to publicly disclose their financial objectives on an accruals basis and performance output. Furthermore, according to McCulloch and Ball (1992), they need to prepare the progress report on the achievement of those objectives for strategic decision-making through a vertical integration (between the ministers and official) and horizontal integration across the department. This effort appears consistent with the government's aim of better management and greater accountability in its public administration (Lapsley and Pallot, 2000).

The review above shows that New Zealand took about eight years to complete the whole PFM reform process. Although the country is a late starter among developed countries in implementing the economic and public sector reforms, when it started, it was an 'extreme' and a 'rapid mover' (Ferlie et al., 1996, p. 16). Guthrie, Olson and Humphrey (1999) even classified the New Zealand reform as exhaustive, with radical big bang approach. Pallot (1998), however, argued that it would be a mistake to think that the New Zealand accounting reform is simply radical as the government faced difficulty in utilising the information produced for decision-making processes. This is due to the lack of support from politicians and senior officials, especially their willingness to display openness and transparency (Pallot and Ball, 1992). Sufficient attention should also be given to the clear policy on future liabilities and community assets to fulfil the user's need. Moreover, Pallot and Ball (1996) highlighted that the reform process should be synchronised with the changes in human resource structure, particularly the accounting expertise with appropriate financial skill, collective strategizing and coordination between different governmental units. Without the right combination of all these elements, it will undermine the accounting reform process that cause perennial tensions as occurred in New Zealand.

b) The UK

In comparison to New Zealand, the accrual accounting adoption in the UK was carried out in a more gradual manner. As shared by Ellwood (2003), the UK moves from Appropriation Account (cash-based accounting) into Resource Accounting¹⁵ (RA) took place in the early 1990s. Before it spread at the central government level, the reform started on a smaller scale in selected public organisation, the National Health Service (NHS). It was followed by a larger scale reform through the introduction of White Paper in 1995 when the HM Government set forth the comprehensive financial management framework under the title, Resource Accounting and Budgeting (RAB) for the departments and central agencies (Likierman, 2000). According to Connolly and Hyndman (2006), through this framework every central agency was required to prepare their financial statement by the year 2000 based on the UK General Accepted Accounting Principle, which was subsequently changed to IFRS¹⁶. Nine years after the initial announcement, the first set of accrual financial statement for such agencies was produced in 2001 (Carlin, 2005).

Initially, the shift to accrual accounting concentrated on a macro-fiscal initiatives, promoting greater efficiency in public expenditure. Under Resource Budgeting (RB), the public organisations were required to prepare the budget appropriations, planning and controlling of the expenditure in accruals basis (Hyndman and Connolly, 2011). Subsequently, the development in RA was also driven by micro-level intention. The government believed that the information would help the central agencies to monitor and control the performance among the public organisations based on resource efficiency for greater accountability. This is also aligned with other improvement programs including Financial Management Information System (FMIS). According to Humphrey (1993), the FMIS programme was developed by imitating the private sector practices, which emphasised on efficiency and value

¹⁵ According to Connolly and Hyndman (2006), RA is a term of art covering a set of accruals accounting techniques for reporting on the expenditure of UK central government and a framework for analysing expenditure by departmental objectives, related to outputs wherever possible.

¹⁶ The International Financial Reporting Standards (IFRS) is the system of accounts used internationally by the private sector. According to Jones et al., (2013), the adoption of IFRS in national government of UK started from 2009-2010.

for money, where accounting is required to produce the true cost of department's activities for internal decision-making purposes. To ensure that RA could stimulate high-level performance in the public services, the government tried to link accrual accounting information to the budgeting process and performance evaluation by specifying the objectives, input and output of every governmental unit in RAB with the aim to improve micro-level fiscal control (Conolly and Hyndman, 2006). Hence, the introduction of accrual accounting appears to correspond with the macro-level and micro-level's intention.

Since the 1994-1995 parliamentary session, the parliament requested the government to extend the scope of accrual accounting in the UK to cover all the government agencies at every level through the publication of the Whole of Government Accounting (WGA). As highlighted by Chow, Humphrey and Moll (2007; 2009), the UK parliament was interested on WGA as they believed that this document could improve macroeconomic policy-making, parliamentary accountability, organisational efficiency and greater transparency. Although the full set of audited UK WGA was scheduled to be made available in 2005, the document was only published in November 2011, after more than ten years of reform (Jones et al., 2013). To date, the UK government claimed that this is the world's largest consolidation exercise as it consolidated the audited account of over 6,000 public organisation covering the central government, the NHS, local government and public corporations (HM Treasury, 2016). Despite the grand claims made for it, to date, there is little detailed analysis on the practical achievement of WGA.

The evidence shared by prior literature suggested that the whole reform process was far more complex than it was ever indicated on the outset. Similar to New Zealand reform experience, the individual department of the UK government suffers from an insufficient number of personnel with accounting skills to prepare and to interpret financial information, thus causing an over-reliance on a consultant (Connolly and Hyndman, 2006). There was also an insufficient engagement with the key user who had large decision-making responsibilities. More fundamentally, Ellwood (2003) pointed out that some application of accrual based-accounting

rules pose a considerable challenge to the concept and meaning of public services. These include the application of revaluation and impairment on assets, causing unnecessary difficulty in the reform process. It has also further complicated financial decision-making as the information produced led to the confusion among the users, especially politicians. These consequently inhibit the usefulness of accrual accounting approach in the UK's public sector.

2.3.3.2 The Case of Developing Countries

Prior literature reported that the transformation from cash-based to accrual accounting in developing countries has grown over the past two decades. Responding to economic and political crisis as well as pressure from international donors institutions, many developing countries including Sri Lanka, Thailand and Indonesia adopted accrual accounting (Marwata and Alam, 2006, Upping and Oliver, 2012; Adhikari, Karuppu and Matilal, 2013). As reported by Harun, Peurseem and Eggleton (2012) the Indonesian government started the reform since 2003 to help them overcome the economic and political crisis. The local and global economic crisis spread over in the 1980s and 1990s. During that time, Indonesia lost the opportunity to gain its national revenue from one of its main commodities due to the global oil crisis, thus resulting in a decline in the national revenue (Marwata and Alam, 2006). It led to inflation and economic imbalance, consequently requiring financial assistance from the IMF to recuperate. This has triggered the reform on government reporting.

Apart from economic reason, the changes in political environment from the autocratic regime and long military-dominated administration by President Suharto to a modern democratic requires better transparency in PFM (McLeod and Harun, 2014). This is also imperative in combating the high level of corruption. Hence, the key government officials who were inspired by Western practices, suggested accrual accounting approach to help to control the government's spending and to properly reflect on the government performance for greater public accountability.

In pursuing that intention, the Indonesian government issued the mandated rule, including Law 17, specifying the details of the reform

plan within the period of 1998 to 2006. These new accounting rules requires every layer of Indonesian governmental unit to prepare an accrual-based financial statement to replace cash-based report according to the accounting standards for the public sector, known as Standar Akuntansi Pemerintahan, SAP¹⁷ (McLeod and Harun, 2014). Although they prepare the accounting report in accrual basis, the rule still requires them to formulate the budget appropriation in the cash basis. This approach differentiates the Indonesian government from that of New Zealand and the UK's. By 2007, the Indonesian government completed the reform process and produced its first set of accrual-based central government financial statement.

From this process, there are several limitations that hindered the reform intention as reported in prior studies. For example, Harun, Peurseem and Eggleton (2012) found that the demands for more comprehensive information remained unmet mainly due to low 'institutional capacity'¹⁸ and corruption at municipal level. The problem of extremely low institutional capacity was attributed to the lack of basic training on accounting, and the restrictions imposed by the recruitment policy prepared at central level that failed to support the accounting reform requirement at the provincial and local government. In particular, only fresh graduates could be recruited at the entrance level, and the salary scale offered for qualified and experienced accountant was very low as compared to the private sector (Harun, An and Kahar, 2013). Hence, there was no room for flexibility on the policy that serve a sudden increase in new human resources requirement.

The low insitutional capacity turned to be a crucial problem in completing the reform. According to Harun, Peurseem and Eggleton (2012), it forced the municipal organisations to depend heavily on external consultants to produce their financial statement. Unfortunately, the intense competition among many consultants in the engagement with the Indonesian public organisation led to the emergence of the corruption or bribe-kickback scheme. Additionally, there is inconsistency in the new

¹⁷ This standard is adapted from Indonesia's Generally Accepted Accounting Principle (GAAP) and other recommendations from global organisations such as IFAC, IASC and IMF.

¹⁸ Institutional capacity is defined by the World Bank (2004) as the ability to implement the government programme from the planning activity, task performance, until continuous improvement to pursue its predetermined goal.

rules (Harun, An and Kahar, 2013). Therefore, prior literature showed that many governmental unit were unable to produce financial statement in a timely manner and comply with the standards. For example, based on audited financial statement in 2007, Harun, Peurseem and Eggleton (2015) found that out the total 469 local governments, only 1% of financial statement was awarded unqualified audit opinions, 19% of them received adverse opinion and a majority of them received a qualified opinion. This indicates that rather than reduce the corruption and improve the quality of governmental financial statement, accrual accounting has produced a larger corruption and degraded the financial information. The accrual accounting consequently had limited room to effectively operate in the Indonesian government.

2.3.3.3 Summary of comparison of the cases

The evidence presented in the above section suggest that the outcome of the reform strategies towards accrual accounting in these countries are relatively uncertain due to the specific features of the context. In particular, this research found that the problem of low institutional capacity due to the chronic shortage of technical expertise in Indonesia is more serious than in New Zealand and the UK. Similar problem was also highlighted by Upping and Oliver's (2012) study on the accrual accounting transition process in Thai public universities. Besides that, the issues of limited involvement of stakeholders, the high levels of corruption and the culture of breaching rules and regulations as reported in Indonesia are similar to the typical characteristics of developing countries identified by Mimba, Helden and Tillema (2007), evidently a hindrance in governmental transformation. Therefore, developing countries confront more severe obstacles than the developed countries.

The above conditions then led to an imbalance between the demand and supply of accounting information, eventually restricting accrual accounting's actual ability to enhance decision-making process in those developing countries. It requires a huge investment of public resources, and yet, could generate more complex issues than we could think. As argued by Hopper et al. (2009; p. 494), the implementation of accrual accounting in developing countries "reproduce an alien hegemony and not increased local autonomy, democracy and accountability, resulting

in dubious development gains". Therefore, Schick (1998) strongly urged that, rather than applying similar NPM reform initiatives as performed by New Zealand, developing countries should prioritise other urgent government project to better meet the public needs.

2.4 DEBATE OVER THE APPROPRIATENESS OF ACCRUAL ACCOUNTING

As discussed in the above paragraph, accrual accounting has occupied a dominant position in the affairs and activities of modern government over more than three decades. This is because accrual accounting approach has undoubtedly been 'sold' across government on the basis of its capability in providing more accurate and comprehensive information. Based on New Zealand's, the UK's and Indonesia's experience, the research classifies the main aims of accrual accounting into three levels. Firstly, by disclosing the accrual-based financial information to the public, these governments claim that it could achieve greater transparency towards external stakeholders. Secondly, consistent with private sector practices, they believe that the more comprehensive and accurate information would encourage the public managers and politicians to utilise such information in decision-making process, including budgeting and cost control. Thirdly, they claim that the better quality of financial information will result in better performance measurement, leading to better accountability in the public sector (Likierman, 2000). All these three intentions appear to be consistently reflected by many other government to secure the accounting reform initiatives in public sector (Hopwood, 1987; Covalleski and Dirsmith, 1988; Jones et al. 2013). Indeed, Olson et al. (1998) classified the uniformity in this intention as 'reforming spirit'.

However, prior scholars argued that the role of accounting is not fixed and emerged according to the complexity and social significance. This argument resonates with the conclusion made by Burchell et al., (1980) on the variation of roles of accounting in organisational and social practices. Based on the review of the ways accounting were practiced in the corporate organisation, Burchell et al., (1980) argued that the meaning and significance of accounting function are shaped by the complexity of the organisational process and its specific mechanism. Thus, particular attention should be given to the importance of the distinction between the articulation of the role of accounting, and the role that accounting actually serves in the context of organisational and social functioning. Given the complexity of the nature of accrual accounting and the specific setting of public sector with its massive scale and large

hierarchical organisations, there is a possibility for the impact of the reform to fall under those circumstances.

Consistent with the argument made by Burchell et al. (1980), Broadbent and Guthrie (1992; 2008) distinguished three alternative research approaches performed by previous PSAR studies: traditional technical accounting, technical contextual accounting, and contextual technical accounting. The differentiation of the category was made based on the ability of accounting to lead the change in connection with the importance of organisational context in which it is applied. According to Broadbent and Guthrie (1992), the PSAR researchers in the first category often perceive accounting as a very powerful force for change regardless of its context whilst, the researchers in the last two categories are more sceptical of the ability of accounting. The last two categories are classified as 'alternative accounting research' by Broadbent and Guthrie (1992), where the researchers appear as being strongly influenced by the idea of Burchell et al. (1980). In this approach, accounting is treated either as a promoter of change or agent for change, but its actual roles will depend on the context that can affect the change process.

Based on this classification, the research found that more optimistic view comes from the first approach, especially by 'official voices'¹⁹ including McCulloch and Ball (1992), Mellor (1996), Likierman (2000) and Schick (1996). Most of the articles were prepared at the early stage of accounting reform adoption in New Zealand, Australia or the UK. By focusing on the ideal world of accrual accounting, the researchers from this category largely concentrated on the technical aspect of accounting and tended to neglect the important consequence of contextual aspect. For example, McCulloch and Ball (1992) described accrual accounting as a neutral tool that will help management to do what it is supposed to do in a straightforward manner, without detailed elaboration on how it works in the real environment. In the same vein, Ball and Pflugrath (2012) argued that the accrual accounting assisted the New Zealand's government in improving its economic performance based on a few economic indicators. However, given that the outcome of the national economic condition depends on other various factors, only thorough investigations could provide the evidence on how they manage to fulfil the intention of PSAR. From this, accrual accounting is represented as a magic bullet that could change the entire national economic conditions without any barrier.

¹⁹ In this research, 'official voice' refers to a person who is attached to government agencies or supra-international bodies as an employee, consultant or committees members.

In contrast, the majority who conducted 'alternative accounting research', described the accrual accounting implementation as problematic with anticipated success becoming ever more elusive. As commented by Hopwood (1984), public sector reform, including accounting changes had mostly been advanced 'in the name of their presumed potential rather than their practical possibility or actual consequences' (p. 176). Responding to this comment, many critical scholars are interested in examining how the government applies the accrual accounting as part of public management practices and the consequences of the reform within a specific context. Among others, these include Guthrie, (1998); Newberry and Pallot (2003); Connolly and Hyndman, (2006); Ellwood and Newberry (2007); Arnaboldi and Lapsley, (2009); Pollanen and Lapointe, (2012); Harun Puersem and Eggleton (2015). From their research, they found that inappropriate organisational features and social action led to a growing chasm between the theory and practice of accrual accounting. In particular, two main themes are of main concern to the scholars; one is about the deteriorating quality of the financial information produced by accrual accounting itself, another is its impact on the overall PFM framework covering intended and unintended consequences.

Regarding the quality of governmental financial information, Guthrie (1998), posited that the information produced by accrual accounting is unsuitable as many of its valuation and reporting approaches are not relevant in the public sector realm. Based on the Australian government experience, Guthrie argued that since profit is not a goal for the public organisation, the new set of information cannot be a relevant measure of financial performance, including efficiency and solvency. Guthrie further noted that this narrow value of performance gives both the responsibility and more autonomy to the individuals to utilise their discretion, which sometimes contradict with the organisation's value. The findings shared by other prominent scholars supported Guthrie's argument. Many of them highlighted that the valuation and reporting activities involved in accrual accounting allow for more subjectivity due to the greater involvement of human judgement, ensuing in ambiguous aspect in constructing the data reported in the governmental financial statement (Pallot, 1992; Ellwood, 2003; Carnegei and West, 2005; Pina *et al.*, 2009; Arnaboldi and Lapsley, 2009; Hyndman and Connolly, 2011). This offers an attractive option to key actors to use discretion that may create space for manipulation including window dressing, thus deteriorating the quality of governmental reporting.

Besides the quality of new financial information, the debate also focused on the impact of accrual accounting in managerial process. Previous literatures implied that accrual-based accounting information failed to resolve underlying fiscal control problems and fulfil the initial intention of PSAR, more generally NPM (for example Robb and Newberry, 2007; Hyndman and Connolly, 2011). This includes transparency and accountability. However, rather than strictly comparing between the idealised picture and the actual achievements of accounting change, ter Bogt (2008) suggested that PSAR researchers should be more open to considering any possibilities including its unintended effect. According to him, the expectations on the effect of NPM are sometimes too high and thus, not much progress can be seen when the comparison with the achievement is made. Therefore, in the research of the implications of the accounting change in Netherland, ter Bogt managed to reveal the whole consequences faced by the local government; the intended and unintended. This approach is in line with Scapens (1994: p. 316) reminder on 'abstract ideals' restricting the researcher's ability to describe the actual complexities of organisational behaviour in the public sector context, and Hopwood's (1984) recommendation on the importance to recognise the ambiguities surrounding the reform in the public sector. As the research will utilise this approach, it is important to review what has been reported in prior research on the intended and unintended effect of the evolution of accrual accounting practices. This will be discussed in the following paragraph.

2.4.1 Impact on Transparency

Transparency is at the centre of much of the PFM concerning the state of many national economies. The current global financial crisis pressurises the government to disclose various information to reflect the whole economics activities of the public organisations, especially on expenditure and debt (Ball, 2012; Biondi and Lapsley, 2014). The government and international bodies claimed that clearer information than before would help to enhance the ability of general public to monitor the actions of the governmental unit in two dimensions (Heald, 2006). Firstly, on the level of compliance by comparing between the actual practices against the rules governing the conduct. Secondly, in providing better understanding on how government manages public resources in the attainment of predetermined objectives. With the publication of more intense and rigorous information subjected to verification by the auditor and scrutinised by international bodies, accrual accounting approach is increasingly recognised as an important doctrine of good

governance especially to combat the high level of corruption (Harun, Peursem and Eggleton, 2015) and to promote 'bureaucratic transparency'²⁰ (Hood, 2007). This appeared to be one of the prominent claims of PSAR since the 1980's.

Prior literature argued that in purporting to be a language that makes financial performance and financial position of the government visible, the accrual accounting regulation itself hides many dimensions. The government of New Zealand for example, explicitly claimed that the accrual accounting was adopted to increase the level of managerial transparency (McCulloch and Ball, 1992). However, the evidence revealed by Newberry and Pallot (2003) showed that the new accounting rules appeared to boost Public-Private Partnership (PPP) arrangement and formation of subsidiaries organisation to escape parliamentary scrutiny. The hidden arrangement of PPP made the New Zealand's government financial position appeared better than before when in reality, they had to bear the huge portion of the commitment in future (Newberry and Pallot, 2003; 2005). Consequently, the user had no opportunity to scrutinise that transaction, and the understatement of the amount reported on debt impaired the reliability of the financial information that could mislead the user in future decision-making.

Moreover, Vinnari and Nasi et al. (2008) found that the new accounting's requirement concealed the real financial performance and position of the government through the vagueness of public sector accounting standards especially on community assets²¹. This has long been discussed by Pallot (1992) without any better solution. In the examination of the application of accrual accounting in public organisation in Finland, Vinnari and Nasi (2008) criticised that the accrual accounting standard provided the insufficient reporting guideline on infrastructure asset, which in turn, offered ample opportunities for 'creative accounting'. Following Vinnari and Nasi's (2008) argument, a significant analysis on the effect of inadequate guideline concerning transparency on heritage asset by Biondi and Lapsley (2014) in

²⁰ As classified by Hood (2007, p. 195), bureaucratic transparency refers to 'the various process by which officeholders are watched by experts or agents such as auditors, regulators or tutelary bureaucracies of various kinds'. Hence this classification is suitable to be applied to governmental unit.

²¹ Pallot (1992) describes community assets as asset which have three key features: used by public rather than its owner, available for social purposes and are not saleable. This includes common property; infrastructure asset (such as road, land under the road, drainage work, bridges, paving, streets lighting), cultural (museums, public libraries, artefact, monument, art) and environmental (scenic reserves, national parks).

the UK context derived similar conclusions. Given that the guideline provided either by local standard setter, IPSASB or IASB failed to recognise the inherent characteristics of such assets, this caused off-balance sheet treatment on capital expenditure incurred for that transactions.

From three levels of transparency that Biondi and Lapsley (2014) introduced, namely; accessibility to the information, genuine level of understanding, and sophisticated level of understanding on the phenomenon disclosed, research found that the problem of ambiguity of accounting regulation on community assets and PPP transaction posed severe challenges even at the first level of transparency. Moreover, the complication in quantification for such asset produced misleading report that distorted the user's understanding and hindered the attempt to achieve the second level and the third level of transparency. Consequently, there were clashes between the compliance on the regulation prescribed by the standard and the necessity to respond to the information needs of the users on transparency.

Apart from deficiencies of public sector accounting standard, literature also highlighted on the failure to enhance transparency due to the usage of difficult clause and accounting jargon in the accrual-based financial report. According to Newberry and Pallot (2005), this problem is particularly obvious in understanding the new sets of financial report, which requires extra knowledge and skills from the user. Based on New Zealand's experience, they argued that whilst deeper and wider disclosure was given, simultaneously the real storey was self-censored from the public organisational picture through more accounting jargon. This is because they found that the more detailed financial report produced for every governmental unit did not increase proportionately with the skills and the time given to parliamentarian to really understand and scrutinised its content. Hence, the accounting approach that was intended to win the public trust, when put to the test, actually generated more doubt over its content.

More importantly, other literature showed that without strong political will, any public policy relating to transparency including the adoption of accrual accounting would only end in failures. As suggested by Ball (2012), the most serious obstacles faced in implementing transparency effort, such as accrual accounting in developed countries, was the reluctance amongst the politicians. With relatively insufficient detailed explanation, Ian Ball proposed

that this occurred because accrual accounting poses some risks to the politicians, as the report would depict the government’s actual financial performance and position. The analysis by Hood (2007) on how politicians with ‘blame-avoidance’²² behaviour dealt with the high demand of public transparency may help to explain this scenario. From this research, Hood (2007) suggested three different blame avoidance strategies underlying political and institutional practice within public management as summarised in **Table 2**, which are: ‘agency’ strategy, ‘presentational’ strategy and ‘policy’ strategy.

| Type of blame strategy | | | |
|--|--|---|---|
| Type of transparency | Agency | Presentational | Policy or operations |
| Type 4 – Bureaucratic Transparency (observability by experts or agents) | Attempt to limit blame through delegations of formal responsibilities to others. | Argument either by spinning, providing the justification or switching public attention onto different matters | Defensive approaches in managing the substance or content of the event. |
| | Exploitation of ambiguity over lines of demarcation in managerial contracts. <i>Result: Futility or Worse</i> | Stage management of outcomes by gaming reports performance numbers <i>Result: Jeopardy</i> | Context: <ul style="list-style-type: none"> ▪ Insensitive ▪ Low-intelligence ▪ Box-ticking routines <i>Result: Jeopardy</i> |

(Adapted from Hood, 2007; 203)

Table 2: Outcome When Transparency meets Blame-Avoidance

According to **Table 2**, when things go wrong in the transparency of public management, the politicians are prone to adopt one of these strategies to limit the blame depending on the risk and associated problems. However, in any of these options, it may likely produce either ‘futility or jeopardy’²³. Considering the findings revealed by Jones (1992) and Ball (2012) who claimed that

²² As noted by Hood (2007), ‘blame-avoidance’ occurs when the elected politicians prefer to avoid blame in order to claim for political credit. This is proposed to be central to both political and bureaucratic behaviour.

²³ “Futility” denotes the outcome of dynamic conservatism in which no effective change occurs, while “jeopardy” refers to outcome in which effective change occurs but at the cost of other important values (Hirschman, 1991).

politicians had no incentives to embrace the reform on financial disclosure, it indicates that the effort to incentivise the politicians to enhance the transparency in public sector through better presentational approach seems troublesome. Within the unstable political circumstances in which the politicians try to minimise the risk of blame, they may manipulate the figures through the changes in presentational approach. This scenario will result in invalid and inaccurate information that will not help the government to solve the fundamental economic issues.

The evidence reviewed above also suggests a pertinent role of political will in determining the impact of accrual accounting on transparency. However, the available PSAR research indicated that it is complicated to investigate the impact of the accrual accounting practices on the transparency in public sector. Therefore, while a significant number of NPM literature are devoted to the issue of transparency, the studies presented thus far provide evidence that literature which critically address the impact of accrual accounting on public transparency are rare and thus merit more attention.

2.4.2 Impact on Decision Usefulness

Prior literature showed that much of the initial impetus for accrual accounting in the public sector is to provide useful information for making financial decisions. In relation to this, the proponent of accrual accounting, especially international bodies, claimed that the government should know its real financial position both in short-term and long-term. However, Mellor (1996) claimed that the conventional cash-based accounting report could only provide the partial and short-term information, which is neither useful nor meaningful to the decision maker. As demonstrated earlier, the reform towards accrual accounting in UK and New Zealand has been associated with neo-liberal principles emphasising governmental accounting in two main roles (Ellwood and Newberry, 2007). One is at macroeconomic level, where the users responsible for preparing the national's fiscal plan, require the information on any possibility to reduce the government's long-term spending. Another is at microeconomic level where an individual governmental unit is concerned of the detailed operational cost for performance measurement. Hence, decisions both at macro and micro level critically require comprehensive information about financial condition of the reporting entity. Given the fiscal squeeze precipitated by the global economic condition, this

provided large opportunities for the international bodies to secure an expansion of NPM practices among the modern government across the world.

Consistent with this, prior literatures attempted to investigate the impact of accrual accounting adoption on governmental decision-making process. The evidence showed that the task to make users comfortable to utilise accrual accounting information in decision-making is not trivial. Although financial report in many countries experienced major changes in terms of its content since the past three decades, in actuality it played a very limited role in PFM. For example, Pollanen and Lapointe (2012) found that there was little evidence that the information produced in accrual accounting was used in the decision-making process of the Canadian government. No progress was visible for the integration of accrual accounting information and budgeting at the central and departmental level. Similar situation was reported by Christiaen and Rommel (2008) for the Belgian and Flemish experience, and Brusca and Montesinos (2013) in the study of Spanish local government.

In investigating this scenario, many scholars including Pallot and Ball (1996), Blöndal (2003), Connolly and Hyndman (2006), ter Bogt (2008) and McLeod and Harun (2014), found that the new sets of accrual accounting information lacked sufficient quality needed to assist the public managers to prepare their decisions. The greatest obstacle encountered by many countries to prepare a set of new accounting information is a limited number of personnel with appropriate accounting skills. As highlighted by Harun, Peurseem and Eggleton (2015), the local government of Indonesia witnessed severe damage in the quality of financial information published under accrual accounting with a high level of non-compliance, as there was a constraint in the number of accounting experts. Consequently, the risk exposed by the new accounting figures has resulted in the very minimal utilisation in the process of decision-making.

Besides lack of accounting skills among the producers, previous research showed that limited accounting knowledge and financial analytical skills among the users also contributed to the lack of usage of accrual accounting information in decision-making process. Based on the New Zealand's reform experience, the first country applying accrual-based budgeting, Pallot and Ball (1996) advised that the changes in human resource with financial skills should be made before adopting the integrated PFM initiatives. Contrary to the suggestion, this does not occur in many NPM reform adopters, including the

Republic of Ireland. According to Hyndman and Connolly (2011), the Irish government had a very limited number of skilled public managers in analysing the financial data. As a result, the public managers at the central government department faced difficulties in utilising the complex information disclosed in the accrual-based accounting report, thus restricting their capability to advise the ultimate decision-maker accordingly. This eventually restricted the effect of accrual accounting in PFM.

On top of that, prior literature revealed that some of the information produced by accrual accounting approach is not relevant for government operational decision-making. As highlighted by Pollanen and Lapointe (2012), most of the organisational unit with less capital intensive felt that there was no difference between accrual accounting information and cash accounting information. Thus, for simplicity and practicality, they continued to use cash accounting report especially in budget appropriation. Additionally, Guthrie (1998) found that the traditional ratios calculated based on the business entity such as 'profitability' and 'return on assets' were not relevant to public managers as the concept was not suitable to be applied in the governmental environment. Given that the nature of public sector is emphasised on social welfare, Guthrie (1998) argued that the application of some accrual accounting regulations only generated superfluous information for PFM. Hence, despite using the accrual accounting information, the users chose to totally ignore this information in decision-making and maintain their traditional management practices.

Additionally, prior literature showed that the changes in decision-making practices at public sector could not happen without sufficient support from the key decision makers, which are the top management leaders and the politicians. As suggested by Ball (2012), the politicians and Ministry of Finance rarely used the accounting information for decision-making because of individual preferences. This argument is consistent with findings about politicians who seem uninterested in advancing the new set of financial information in Canada (Pollanen and Lapointe, 2012) and Indonesia (Leod and Harun, 2014). Elaborating on this,Leod and Harun (2014) suggested that most of the Indonesian parliamentarians did not possess sufficient skill to analyse the government financial statement. Without adequate understanding, they could not see the important link between accounting

information and other managerial tools. Hence, rather than prioritising public interest, they pursued their self-interest in decision-making process, especially in budgeting. This may explain why many accounting scholars found that accrual accounting initiative does not change the way politicians and top financial manager behave towards NPM practices.

Prior literature also showed that accrual accounting would not bring any changes unless it is complemented by an appropriate mechanism that integrates its information with other public management tools. Realising on this, Mellor (1996) urged that every public financial decision should be taken on the common basis including resources allocation. However, in examining the application of accrual budgeting among OECD countries, Blondal (2003) found that only three countries i.e. Australia, New Zealand, and the UK fully applied accrual-based budgeting while the rest still maintained cash-based budgeting system. As reported in Canada, Pollanen and Lapointe, (2012) highlighted that the accounting report for the central government remained isolated from the routine of managerial decision-making. As the public organisations were not required to produce any report in accrual-based budgeting, the producers felt demotivated in reconciling the vast number of cash and non-cash transactions and the users did not take accrual accounting information seriously, consequently ignoring it in the decision-making process. Due to the absence of clear mechanism connecting accrual information with wider PFM's decision, many scholars concluded that the accrual accounting approach is defective in public sector environment, and unfortunately, it is a common feature of NPFM reformists.

2.4.3 Impact on Accountability

Accountability²⁴ is a very important doctrine within the public sector context, particularly for democratically elected governments. The derivation of powers of the Executive and that of the Legislature from the public makes this inevitable. As pointed out by Barton (2006), along with powers come the responsibilities attached to each governmental unit. Conventional wisdom agreed that sufficient taxes and charges are collected to cover the cost

²⁴ Barton (2006, p. 257) defined accountability as 'an obligation to answer for one's decision and actions when the authority to act on behalf of one party (the principal) is transferred to another (the agent)'. In public sector context, the general public constitutes a principal whereas the government acts as the agent. Thus, when the public gives resources to the government and in return, the government accepts to use these resources in fulfilling the responsibilities, together these two parties establish a commitment for accountability.

incurred in the provision of public services in each fiscal period. Hence, the Executive should adhere to financial regulations and spending limits prescribed by the Legislature in fulfilling the responsibility given. To ensure this, accounting is expected to play its function in maintaining and providing the informational needs of the Legislature. Therefore, many government policies' document asserted the benefit of accrual accounting is an improvement of accountability.

Moreover, prior research indicate that the governments needed to adopt the NPM practices since the public increasingly demanded for higher efficiency and greater quality of public services. They attempt to hold public managers accountable for the resources utilised to deliver the outputs and outcome effectively through the new performance evaluation technique (Jones et al., 2013). According to Humphrey, Miller and Scapens (1993, p. 23), this new technique emphasised on the 'role, cost, and service performance' and a closer relationship with accounting information. This is also to support the pursuit of austerity especially under global financial crisis (Bracci et al., 2015). Instead of narrowly focusing on the cash outlay, the government therefore believed that they could demonstrate their accountability in a better way by expanding their financial reporting to include asset and liability through accrual accounting approach.

The proliferation of accrual accounting in PFM comes with an increasing critique of its dysfunctions. Many prominent scholars including Roberts and Scapens (1985), Broadbent and Guthrie, (1992) and Humphrey and Miller (2012) reported that the evidence showed that the rhetoric on the primary role of accrual accounting approach to secure public accountability over reality has triumphed for so long. From the research on the practical achievement of accrual accounting in performance management in the UK public sector, Humphrey, Miller and Scapens (1993) revealed that the claim was not being materialised. In a more sceptical voice, Roberts (1991) argued that the accountability intentions suffered from several weaknesses and caused severe damage to ethical and strategic public organisational concerns. Supporting this argument, Gray and Jenkins (1993) found that the FMIS initiative that emphasised public accountability raised more complex issues at the central government of UK. It was treated as a political instrument to fulfil their short-term interest without generating any positive impact on public

services. Even after two decades of its implementation in UK, the achievement tended to be elusive (Humphrey and Miller, 2012).

A number of alternative explanations for this problem were advanced by previous scholars. One of the fundamental problems in improving accountability, as suggested by Jones and Pendlebury (2010), revolved around the issues of reliability and controllability of government's output. They found that the main challenges faced by public managers in evaluating the public accountability is to precisely measure the performance of public organisations as it requires a direct relationship between input and output or outcome. A significant analysis on this issue was presented earlier by Humphrey (1993) on the development of FMIS in England and Wales. In this research, Humphrey concluded that the paradox of 'accountable management' was influenced by the complicated nature and uncertainty in public services itself. Similar findings were also reported in the research on the experience of local government in Spain, by Brusca and Montesinos (2013). They found that certain kind of public services were required to perform on an ad hoc basis and some other services dealt with too many beneficiaries that were almost impossible to quantify. Given this unique setting, it is perhaps not surprising that the effort to mirror the private sector managerial model in public sector environment for greater accountability turned into a fiasco.

Other scholars also highlighted that in order to measure the various nature of the public organisation's performance accurately, it requires additional cost, time and resources, which subsequently hamper the assessment process among the performance manager. According to Christiaens and Rommel (2008), the daunting task of gathering, organising and retrieving the number of output and the precise calculation of government expenses, including overhead cost, made the process even more challenging to the Belgian and Flemish government. Any wrong calculation would lead to invalid results that could produce wrong decisions. Moreover, Walker (2002) who examined the PFM reform in Australia, revealed that although the governmental units were required to prepare the financial statement based on private organisations framework, there was no mandatory requirement to measure the achievement of performance indicator amongst them. The discourse of public accountability in Australian government appeared incomplete. Together, this condition caused a lack of interest to embed the new routine of PFM among the public

managers. As a result, the accrual accounting information become irrelevant and stultifying in the public sector sphere.

Another interesting explanation was offered by Sinclair (1995) and Robinson (2003). Although the fieldwork was done in a different country, Sinclair (1993) in Australia and Robinson (2003) in Canada, they arrived at a similar conclusion. They found that the failure of accrual accounting in improving accountability was due to the inherent nature and specific objectives of the public organisations. This is particularly obvious for organisations responsible in providing social services to the community, as their main concern is not principally bound to the financial returns and outcomes. Museums for example, spent most of their fund on conserving and protecting priceless national heritage collections for the benefit of social and intellectual capital (Carnegei and West, 2005). In contrast, the services delivered by private entities would always have monetary values attached to it and are meant for profit maximisation. Given that the application of accountability is based on private entities practices driven by financial objectives, there has been no demonstration on how this concept could serve the primary objectives of most public sector entities. Hence, there is an incompatibility between the disclosures requirement on financial information and non-financial information related to the performance of governmental organisations, which provide social services.

As suggested by the literature above, it is clear that the effort to apply accrual accounting approach as one of the managerial instruments remains a rhetoric without any fulfilment of its intended outcome to the governments. This seemingly lends some credence to the argument that accrual accounting, in reality, does not support the NPM's ideas that emphasise on the close linkage between information gathering and anticipations of information use for greater accountability, transparency and better decision-making. It also affirms a significant difference between the main objectives of the public sector and the private sector, thus causing the uncertain future of accrual accounting approach. This inevitably begets the question of whether the possible positive impact has lured many governments to continue to invest their enormous resources in PSAR initiative. The review on the unintended outcome as presented in the next paragraph could suggest some answers to this question.

2.4.4 Emergence of Unintended Effect

Many of the early literature focused on the gap between the expected outcome and the actual achievement of the accounting reform, yet limited studies discussed the changes process and its immediate effects that produced the unintended results. The research prepared by ter Bogt (2008), Ellwood and Newberry (2007) and Harun, Peurseem and Eggleton (2012) are among the exceptions. Apart from the achievement of the intended outcome, ter Bogt (2008) reported that the gradual accounting reform process at the Dutch local government level contributed to some positive effects on the organisational culture and individual behaviour. In particular, ter Bogt found that after more than fifteen years of accrual accounting adoption, the public managers started to learn and exercise business' values that gives greater focus on the quality of service's performance. With this, they showed gradual increase in the use of accounting information at the departmental level. Hence, ter Bogt (2008) claimed that accrual accounting slightly contributed to the change in routine which generated a positive functioning of the public organisation itself.

While accrual accounting produced some positive impact, the benefits were offsets by significant negative unintended consequences. The result shared by previous literature indicated that the unintended consequences occurred either because of misuse of the accounting information, or because of the defect in the design of the reform. A detailed analysis and discussion on the misuse of accounting information was documented by Ellwood and Newberry (2007). In a comparative research between the UK and New Zealand, Ellwood and Newberry (2007) revealed that the intention of both governments to advance micro-level efforts through accrual accounting was closely associated with the effort to commercialise its public services. In supporting that intention, accrual accounting was used in determining the full cost incurred by the government to deliver the product or services and the price. After completing the whole reform process, they found that the performance measurement technique in accrual accounting approach was biased and favoured the private entities. Hence, in the effort to reduce the government debt and expenses, certain public services that previously prioritised social obligation and required higher cost from the government, such as some important services in NHS, were privatised (Newberry and Pallot, 2005: Ellwood and Newberry, 2007). This decision subsequently received

considerable public opposition as it contradicted with the original purpose of the traditional function of the governmental unit.

Another unintended consequences of the accrual accounting are shared by Harun, Peurseem and Eggleton (2012), based on the research at the local government of Indonesia. Due to the inadequate design of the reform programme, the 'bribe-kickback' scheme emerged in the Indonesian government. As they had a limited number of accounting experts and a lack of coordination among governmental unit, many agencies under the local government incurred additional cost to outsource the production of the organisation's financial report to external professional firm. While participating in the formal tendering process, the firm paid some amount of money to selected government officials to secure the project. This encouraged the practice of corruption among the actors involved in the reform process. Consequently, instead of combatting corruption, accrual accounting amplified the level of corruption, causing higher PFM deficiencies in Indonesia than before.

2.5 SUMMARY

The review of literature above showed that the current status of accrual accounting in the public sector is seriously in doubt. Academics, international bodies and accounting practitioner themselves are divided over what constitutes a proper basis for recording and reporting financial transactions. Empirical questions are frequently raised about the reform approach in a different context and the outcome of accrual accounting. The most common findings highlighted by previous scholars are that the change process is complicated, and the idealism associated with the accrual accounting approach in governmental reporting is exaggerated (Pendlebury and Karbhari, 1998; Christensen, 2007; Hyndman and Connolly, 2011). Other scholars revealed that the PSAR reformers failed to achieve the stated expectation because of the disintegration between the highly ambitious strategy and the weaknesses in deployed technologies, the limitation in the organisational context and culture that restrict the capacity of actors (Christiaens and Rommel, 2008; Caperchione, Christiaens and Lapsley, 2013; Harun, Peurseem and Eggleton, 2015). Therefore, many critical PSAR scholars suggested that the nature and extent of this reform could not be isolated from the influence of context in which the reform strategies are being operationalised.

More importantly, accrual accounting adoption produced unintended effects that have become more severe than expected. It seems to stimulate corruption (Harun, Peurseem and Eggleton, 2015) and functions as a political tool to aid a controversial political agenda (Ellwood and Newberry, 2007). Regarding this, Suzuki (2003: p. 85) reminded that 'politicians can change the truth of the economic reality not by changing the transcendental economic reality itself but by changing the codified rules'. However, as asserted by Lapsley, Mussari and Pausson (2009) and Caperchione, Christiaens and Lapsley (2013), prior research neglected the important influence of political commitment in the changes of governmental accounting practices. Thus, they suggested that the adoption of PSAR should be examined by appreciating the political commitments for comprehensive conclusions.

Another interesting point that appears at this level is neither cash nor accrual accounting approach could fully satisfy the public sector's needs. Furthermore, this uncertainty is heightened by an increasing doubt about the practical impact of IPSAS as a basis of governmental reporting framework. Prior literature highlighted that the issue of incomprehensiveness and ambiguity of accounting standards in public sector has been the subject of extensive critique yet, to date, the problem remains unsolved, especially on the treatment on heritage asset and infrastructure asset. Indeed, within the period of more than twenty years ago, the same issues have been highlighted by Mautz, (1988); Pallot, (1992); Carnegei and Wolnizer, (1996), Lapsley and Pallot, (2000) and Biondi and Lapsley (2014). More general issues of accounting reform are discussed, but not on the overall impact of IPSASs application throughout the transition process. Hence, it is important to acknowledge this and how the new reformer deals with the unresolved issue concerning community assets.

Regardless of any result shown by the theoretical or empirical works related to the accounting reform, this does not deny the potential contribution of accounting as a means for change in the public sector. Instead, critiques raise questions that require further research on accrual accounting development as its relationships with public management is not as straightforward as that of the private sector. What is clear from the available literature is that social, political and economic conditions, along with the institutional and organisational structure, have influenced the direction, speed and the impact of the reforms initiatives (Broadbent and Guthrie, 1992; Humphrey and Miller, 2012). Considering these points and the limited research of the reform experience in developing country, this research will not assume that the transition from cash to accruals accounting is just a change in governmental reporting. Instead, attention will

be given to the contextual condition and the 'roles which information and accounting play in the political processes which characterize organisational and social life' as suggested by Burchell *et al.* (1980: p. 23). Therefore, the research focuses on the attempt of Malaysian government to radically adopt accrual accounting approach in its PFM based on IPSAS by highlighting the different interpretations from the actors involved, different possibilities, and the immediate effect that arises during transition phases.

CHAPTER 3

THE EMPIRICAL SETTING

3.1 INTRODUCTION

The following review is intended to provide a background to the empirical context of this research; the Malaysian Public Sector. It presents the background information on Malaysia, including the political, economic and socio-cultural condition, the MPS setting and the highlight on the various phases of public sector reform related to financial management. By clarifying this background, it will be easier to comprehend the reason why Malaysian government embarked on the accounting reform. It will also provide better understanding on the context in which accrual accounting operates.

3.2 BACKGROUND INFORMATION ON MALAYSIA

Malaysia (formerly known as Malaya) emerged as an independent country on 31 August 1957 after being under the British colonial rule since 1786. Subsequently, it united with Sabah (British North Borneo) and Sarawak on 16 September 1963. Two years later, Singapore disbanded itself from Malaysia due to serious disagreement about the political arrangement and Malay dominance. Today, the country is a federation of thirteen states (eleven on the peninsula and two on Borneo Island) and three federal territories. The country is located in Southeast Asia and details are shown in **Figure 1**.



Figure 1: States and Federal Territories of Malaysia

In terms of administration, Malaysia operates within the context of constitutional monarchy. It is headed by His Majesty the King, who is one of the nine Malay Rulers. The King is elected on a five-year rotational basis. Immediately below the King, there are three chambers of institutions as shown in **Appendix A**, i.e., the Executive; Legislature, and Judiciary. The Executive level is headed by the Prime Minister, who is also Chairman of the Cabinet. Currently, the Cabinet consists of twenty-eight Ministers responsible for different functions. They are collectively accountable to the Parliament and advise His Majesty the King in exercising his duties. For the legislature arm, it contains bicameral Parliament consisting of the Senate (Upper House) and House of Representatives (Lower House) (Moten and Mokhtar, 2006). The judiciary acts independently of the legislative and executive branches to ensure compliance to the Federal Constitution and uphold justice based on the laws of Malaysia.

3.2.1 Political Scenario

The Malaysian political system is grounded by the Westminster parliamentary system. It is a democratic nation-state in which the elections of the members of parliament are held in every five years. According to Pepinsky (2009), the coalition political party, known as Barisan Nasional (BN)²⁵, has easily dominated the Malaysian political framework since the first national vote in 1969. Besides BN, there are many opposition parties competing the national and state-level elections including the three rival parties; the People's Justice Party (PKR), Democratic Action Party (DAP) and Pan-Malaysian Islamic Party (PAS). However, since the 12th general election in 2008, the ruling BN coalition faces stiff electoral challenges. The ruling party BN unexpectedly lost their longstanding supermajority position in the Malaysian political arena.

Prior to 2008, only 20 out of 219 members in the upper house were from the opposition. This figure increased tremendously to 82 seats in the 2008 election. From 222 seats, BN only managed to secure the remaining 140 seats or 63.06% of the total vote (Moten, 2009). This marked the first time that BN did not win a two-thirds supermajority in the Malaysian Parliament. Moreover, five of the twelve contested state legislatures were won by the opposition, as compared to only one state in the previous election. Many attributed the swing

²⁵ The Barisan Nasional (BN) currently has three prominent political parties that represent major ethnic groups in the country, which is UMNO (United Malays National Organisation), MCA (Malaysian Chinese Association) and MIC (Malaysian Indian Congress) and ten other component parties.

in votes to the issue of public call for a more transparent and accountable government (Bakar, Saleh and Mohamad, 2011). With this result, the 5th Prime Minister, Abdullah Ahmad Badawi decided to surrender the most powerful political position in Malaysia to his successor, Najib Razak on 3 April 2009, hoping that this could regain people's confidence in the ability of BN. This situation also forced Najib Razak to start realigning the overall governmental management approach.

The outcome from the 12th general elections suggests that coalition governments are becoming the norm for Malaysia. This is because the 13th general election in May 2013 continues with worse results in which the BN only managed to secure 59.91%, which constitutes 133 seats from the total of 222 parliament seats (Noh, 2014). Chin (2013) argued that this result is partly influenced by losing significant popular vote among the Chinese voters who fight for equal racism treatment and against bad governance with some corruption issues that lead to the inefficiency in public management. With an increasing number of seats occupied by the opposition party, BN received more intense parliament debates, especially for greater transparency and efficiency in managing the national economy. In response to the increasing demand from the public, Najib Razak therefore decided to introduce various governmental reform agenda consistent with NPM's approach (PEMANDU, 2014).

The strong demand for better transparency intensified in 2015 due to a recent fund scandal involving one of the government-linked companies. There was a major fund scandal reported in the local and international media, allegedly associating Najib Razak with the plunder of 1Malaysia Development Berhad's (1MDB²⁶) sovereign wealth fund amounting to 2.6 billion ringgit (USD645 million). As reported in Wall Street Journal,

“more than \$1 billion entered Malaysian Prime Minister Najib Razak's personal bank accounts, much of it from state investment fund 1MDB. The scandal has caused a political crisis in an important U.S. ally in Asia and threatens to upend years of one-party rule in the country. Mr Najib denied wrongdoing or taking money for personal gain” (Wright, 2015).

²⁶ 1MDB is responsible for managing strategic development projects in the areas of energy, real estate, tourism and agribusiness for long-term economic development for the country.

Following a series of disclosures in The Wall Street Journal and The Sarawak Report on this scandal, there were international and local investigations on 1MDB and the Malaysian Prime Minister. Considering the status of 1MDB as one of the wholly-owned companies by the Federal Government of Malaysia (FGoM), the public became more sceptical on the risks and future obligations of this kind of arrangement to the government. Therefore, they continuously urged for better exposure on all type of investments and contingent liabilities that materially affect the government's financial position in the financial statement.

3.2.2 Economic Scenario

Malaysia has categorised by the World Bank as a country with upper-middle income economy (World Bank, 2016). In the early 19th century, the country used to have an agriculture-based economy, with rubber producing a major source of foreign earnings. Subsequently, as the palm oil industry began to grow and large deposits of tin-ore as well as petroleum were found in several Malay states, Malaysia also depended on such commodities as a primary income generator. This provided a steady base for the country's economic growth during the 19th till the mid-20th century (Yusof and Bhattasali, 2008). By the 1970s, Malaysia experienced a major transformation in the economic activity; from focusing on traditional mining and agriculture to diversified economy. It received substantial foreign direct investments from Japan in the manufacturing industry; producing heavy machinery, microchips, and semiconductors. This subsequently became the primary growth engine for Malaysia till 2005 when the economy expanded with the real GDP growing by an average of 6.5% per year. Today, Malaysia is among one of the world's largest exporters of electrical appliances, electronic components, palm oil and natural gas.

However, from the external front, Malaysia has been significantly impacted by the global economic condition. The Asian Financial Crisis has dampened growth for about 4% per year and the country's GDP wane from US\$100.8 billion in 1996 to US\$72.2 billion in 1998 (World Bank, 2016). In rejuvenating the economy, massive government spending was made on the economic stimulus plan. Nevertheless, the continuous mega infrastructure development project since the era of Mahathir Muhammad, Malaysia's fourth Prime Minister, caused a dramatic growth in the government's expenditure, debt and

deficit during that period. Moreover, the country faced sharp decline in the prices for its major commodity exports and more external economic competition (Yusof and Bhattasali, 2008). Therefore, Malaysia continuously recorded budget deficits from 1999 until 2003. Growth was slowing and the loss of national revenue is limiting investment activities (Treasury, 2004). Subsequently, Malaysia was hit by the Global Financial Crisis but recovered rapidly, posting growth rates averaging at 5.7% since 2010 till 2015, before dropping significantly to 4.0-4.5% in 2016. The summary of FGoM's accounts and the trend of GDP from 1990 to 2016 is illustrated in **Appendix B** and **Appendix C** respectively.

Recently, the current Malaysian financial market reflects investor's concerns on 1MDB's scandal, contributing to its lowest performance in the last decade. According to Wall Street Journal (2015) and Bloomberg (2015), the 1MDB corruption scandal has led to a plunging drop in the price of Malaysian government bond and Malaysian currency, the "ringgit". Within the period of mid-2014 to the third quarter of 2015, Treasury (2015) reported the weakening in "ringgit" until it depreciated by 14.8% against the U.S. dollar. This is the weakest in almost a decade thus causing the decline in Malaysia's net exports and revenue. The foreign investors are pulling cash out of the country's markets at an accelerating rate, due to an unsurprising loss of confidence towards Malaysia's credit-worthiness. However, the Central Bank of Malaysia (2016) commented that the depreciation in "ringgit" value was affected by the growing concerns over falling global crude oil prices on the fiscal position and a slower Chinese economy which is Malaysia's largest trading partner. The global economic uncertainty, combined with weak currency and unstable political condition expanded the gap between the real and targeted key economic indicator for Malaysia.

In this situation, the government needed to multiply their effort in strengthening its fiscal position. This has forced the Ministry of Finance (MoF) to cut public spending and to find more stable alternative sources of income. In doing this, the Fiscal Policy Committee was established to restructure all the government subsidies including fuel in 2014 and to introduce a Government Service Tax at 6% in 2015 (Treasury, 2016). However, there is unhappiness among Malaysians over the tightening economic conditions, and this consequently contributes to dampening consumption (Central Bank of Malaysia, 2016). In

improving private consumption, the government has taken several measures including annual salary increments for civil servants and an upward revision of minimum wages. This, however, has led to the increase in government spending, hence highlighting the importance of a comprehensive financial information to assist the MoF in monitoring a long-term financial obligation. Therefore, the government tries to quickly adopt accrual accounting to ensure more prudent spending for future sustainability.

3.2.3 Cultural Scenario

The country has a multiracial, multireligious and multicultural society. More than half of the total population, 60.3% are ethnic Malay and indigenous people, 24.6% are Chinese and 7.1% are Indians. According to Hirschman (1987), while the Malays are part of indigenous people, the large number of Chinese and Indians were brought over to Malaysia during the British colonial era to support the economic expansion, particularly in tin mining and rubber industries. Since then, the number of Chinese and Indians keep increasing, with no real attempt by the British to assimilate them into the local environment. Hence, each of these ethnic groups has their own language, faith, customs, schools, and township. They even have their own political parties representing them; UMNO for Malays, MCA for Chinese and MIC for Indians. However, Malays are given special “bumiputera”²⁷ status and this privilege is often perceived as inequalities and discrimination by other ethnic groups. They used this issue as the main sentiment to fulfil their political desires. Therefore, ethnic politics become the dominant framework in understanding Malaysian politics since independence (Pepinsky, 2015).

Besides politics, the dissatisfaction on inequalities bring the concept of “power distance”²⁸ as one of the cultural dimensions that has a dominant force on societal order in the MPS environment. With respect to power distance, Hofstede (2001) found that Malaysia has the highest power distance culture as compared to fifty other countries in the world. It describes the extent to which power, prestige, and wealth are concentrated to be enjoyed by a few people rather than to be distributed equally among the population. For

²⁷ Bumiputera is a policy to reinforce the special rights of the Malay and indigenous community in the Malaysian social, economic and political spheres through the preferential treatment that supports the Malay supremacy.

²⁸ Hofstede (1997; p. 28), defined power distance as “the extent to which less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally”.

example, in managing public organisations, Hofstede (2001) found that the Malaysian society supported the existence of dominant positions held by superior persons; allowing them coercive power through centralisation of the authority, and awarding a higher income with an exclusive title that indicated the society's respect for them. Moreover, there were a great limitation and barriers for more transparency in the communication between the superiors and the subordinates within a country, as the latter were more likely to listen to instructions from the former, rather than to take responsibility and work independently.

From the discussion above, inequality was used as the basis of societal order because the meaning in which we associate with the reality is profoundly affected by what we have learned in our family, school, and work environment. Therefore, Hofstede (2001) argued that the power distance is one of the critical dimensions in managing organisations, especially in multicultural conditions. Regarding this, Teik and Wah, (2002) argued that rather than the democratic regime, leadership in the MPS veered more towards authoritarian, and there were few check and balances on the use of power by the leader. However, the recent political climate pointed to stronger opposition in the Malaysian democratic structure, demanding for a more transparent government. The opposing condition between the political and cultural scenario possibly indicates a challenging environment for NPM ideas to be accepted in Malaysia than in other countries. Whether the current level of power distance and local cultural conditions would allow for the MPS to adapt to global management ideas effectively, is a matter of empirical exploration.

3.3 MALAYSIAN PUBLIC SECTOR (MPS)

The public sector in Malaysia is a large and important part of the social, economic and fiscal landscape of this country. Established under the Constitutions, the MPS operates in three different tiers: the federal, the state and the local. The federal government is the highest tier, which comprises ministries, departments and a public corporation. It inherits the Westminster-style governance system as British advisors assisted Malaysia in formulating a range of federal institutions in the initial years of the post-colonial period. In leading the Malaysian Civil Service, the government appoints the Chief Secretary (CS) to the Government as the most senior officer. The operation of each ministry is headed by a Minister, and assisted by deputy minister(s) and the Secretary General (SG) as chief executive officer. Every department under

the ministry is led by the Director General (DG). At the state level, all of the nine monarchical states are governed by individual state governments headed by the Royal Malays hereditary while the three federal territories are directly governed by the federal government with the assistance of a chief minister appointed from the party that has a majority of seats in the state cabinet. As the lowest in the government hierarchy of Malaysia, the administration of local authorities will be under the exclusive jurisdiction of each state government. With this system, each level of government operates within legally defined borders of jurisdiction.

Given the various tiers and massive structural size of the MPS, the government has decided to address this issue by centralising the executive powers on the federal government. According to the federal constitution, the federal government implements bureaucratic culture with top-down decision making in which the federal ministry is responsible for formulating, administering and implementing government policies. The state and the local government will follow this policy as a guideline, except for certain issues that are inconsistent with the law applicable at their level. However, prior literature suggested that excessive powers given to the federal level in deciding most important public sector matters, including financial management under the centralisation approach, is problematic. This is because, although Malaysia has formal democratic institutions practices, political power significantly affects the whole governmental policies through centralised approach. As argued by Siddique, (2010), this approach has contributed to ethical issues and corruption, resulting in inefficiencies and ineffectiveness of the MPS. Furthermore, the emergence of the global economy, growing competition of international trade, and increasing demand in social services suggest that the role of government is becoming more challenging than before (Sarji, 1996). Hence, rather than direct intervention, the government should play an indirect and supportive role, leading to the adoption of NPM practices in the MPS.

3.3.1 NPM in Malaysia

Since the 1980s, the MPS has undergone several transformation processes through various applications of NPM philosophies and instruments for better effectiveness and efficiency. These include ongoing budgetary reform which emphasised performance measurement and result orientation, Public-Private Partnership, privatisation, and Micro Accounting System introduced at all levels of government by the federal government (Xavier, 1998; Stiles, Karbhari and Muslim, 2006; Siti-Nabiha, 2008; Siddique, 2010). According to Siti-

Nabiha (2008), the move toward NPM in Malaysia was precipitated by slower economic growth and fiscal deficit, as well as problematic performance of the public agencies. In response to these weaknesses, Dr. Mahathir Mohammad, after two years of his premiership, introduced two significant policies, i.e. the Look East Policy in 1982 and the Malaysian Incorporated and Privatisation Policy²⁹ in 1983. Both policies emphasised the values of NPM model, which they believed could improve the efficiency in public service delivery and reduced the government's financial burden for better economic development (Triantafillou, 2002). Since then, NPM model and values acted almost as a panacea for the problems of PFM in Malaysia and continues to be regarded as the stimulant for the transformation of role and managerial techniques till now.

However, the adoption of NPM in Malaysia has not produced significant impact to meet the public's expectation so far. Although numerous reforms have been initiated in the past, the Malaysia public organisations continued to be criticised for their lack of good governance. Prior studies suggested that the inherent structural flaws still permeate the institutions, causing them to suffer from inefficiency, corruption and a host of other problems. In particular, Siddique (2010) revealed two main problems that hinder the adoption of result-based management process. One generic problem, as evident in other countries too, is the difficulty in linking input and output. The evidence found by Siti-Nabiha (2008) also reveal the similar problem. In this study, Siti-Nabiha found that the difficulty in measuring the performance of public organisations exist because it involve various stakeholders with uncontrollable and different needs. Hence, vast resources are required to implement the new performance management system which the public sector could not cater to, especially on limited skills.

Another interesting problem highlighted by Siddique (2010) is specific to the MPS context, which is the top-down strategy. This research shows that the problem rooted from previous political and bureaucratic environments that largely undermined the idea of decentralisation in managing the budget appropriation. This is critical because the spirit of the new budgeting system is decentralisation and flexibility in resources utilisation, while the predominant

²⁹ The Privatisation Policy encompasses various sectors such as telecommunications, airlines, railway, electricity, port, and postal services. This is to reduce public spending, relieve the state's fiscal burden, and strengthen market forces.

culture in the MPS emphasises on centralisation. There were no attempts to dismantle the centralised system before adopting the new administrative system. Moreover, Siddique found that there was strong control from the top, which left the lower management with very limited space to play an active role in managing the public resources at their level. The political leadership also did not provide adequate commitment to help rectify these weaknesses. This issue was also highlighted by Siti-Nabiha (2008), when the evidence indicated that the data produced to measure the public service performance, was not utilised for decision-making and monitoring from the central level. Hence, it appears that the primary focus of implementing NPM initiatives in the MPS is just for ceremonial purposes without producing any substantial benefits to the government.

The findings shared by Siddique (2010) and Siti-Nabiha (2008) are similar to the point highlighted by Mimba, Helden and Tillema (2007), on the common characteristics of developing countries that shape the limited actor's response to the NPM reform process. This is particularly on the limited level of institutional capacity and minimal involvement of various stakeholders with a different degree of power that influenced other actors' values, needs and expectations in adopting the reform process. All this explains why the idea of NPM has remained elusive in the MPS context.

3.3.2 Public Sector Accounting in Malaysia

At the federal levels, the MoF is constitutionally responsible for the financial matters of government. The Ministry is politically headed by a Finance Minister, who is also the Malaysian Prime Minister, holding ultimate power for all government functions. The accounting roles of the federal government are led by the AGD under the Treasury in the MoF. As a leader in AGD, the Accountant-General has the onus of ensuring that adequate accounting system for operation is put in place in the Ministries and Departments and for coordination of this operation amongst them. Given the high volume of transactions and the various reporting unit at every ministry, all the ministries used two documents as a source of reference to ensure uniformity in PFM practice, The Federal Constitutions 1972 and the Financial Procedures Act 1957 (Saleh, 2007). On top of that, the Treasury Instructions, Treasury Circulars, and Government Accounting Standard were used to govern the whole accounting operational process.

Regarding the accounting process, the previous operation of government accounts was managed by three groups. The Self-Accounting Department (SAD), Non-Self Accounting Department (Non-SAD) and the sub-unit, known as Responsibility Centre (RC); with all three playing different roles in this process. The personnel at RC will initiate the recording process based on the supporting documents to be approved by three different personnel at higher posts through the online accounting system, eSPKB. The transaction then will be submitted to the Accounts Division for final approval. For the ministry who is Non-SAD, they only operate a single-entry system in which the book-keeping of these ministry are actually completed at the Treasury where a full fledged double-entry accounting system is kept. Meanwhile, the SAD, has its own Account Division that operates a double entry at the ministry level and maintains its own ledger accounts via GFMAS³⁰. Finally, all the aggregated data in every ministry are sent periodically to the AGD for the preparation of Federal Government Financial Statements.

In preparing the Federal Government Financial Statement, the AGD will manage the consolidation process based on the online data submitted by every federal ministry without taking into account the statutory corporations, government-linked companies, state government and local government. This is because all these agencies and another two lower tiers of government are an accounting entity itself, subjected to different laws and regulations. In the current reporting format, the government present the account in accordance with Fund Accounting, in which the records are categorised into three different types of funds (AGD, 2015). This covers: the Consolidated Revenue Fund (indicate the total fund used for operational expenditure such as emolument and procurement), Development Fund (fund utilised for development projects) and the Fiduciary Fund (fund established for the specific resources held in trust or managed under government custody on behalf of others). The maintenance of detailed transactions for every fund is prepared separately as it has different structures and operates under different objectives. According to the Financial Procedures Act (1957), the Annual Federal Government

³⁰ GFMAS has begun its operation since 2006 at twenty-five AGD branches offices and nine Self-Accounting Departments. Although it was modified initially to cater for Malaysian governmental environment, the system with original version of the SAP application were based on the reporting requirement for accrual accounting in private sector operational setting.

Financial Statement will need to be submitted to the Auditor-General³¹ by 31 July in the next reporting year for auditing purposes. After being audited, the Federal Government Financial Statement will be presented to the parliament by the Prime Minister and published for public scrutiny.

Despite the great effort put into NPM reforms, the Malaysian government did not extend it into accounting. Since it gains independence from British colonial in 1957, federal organisation used cash-based accounting to account for its financial transaction. Seventeen years later, in 1974, the government changed its financial reporting format to modified-cash accounting, which continues to be in used till date (Isa, Saleh and Jusoh, 2011). The record showed that the AGD has received the clean audit certificate consecutively from 1997 till 2015. However, from the examination of the development of Malaysian governmental accounting, Saleh and Pendlebury (2006) found that prior Auditor Report and PAC report indicated that the issues of fiscal discipline and mismanagement of public funds continue to besiege the MPS. Hence, many public managers felt such deficiencies could be improved by moving to accrual reporting basis. Unfortunately, the government still prefer to focus on traditional matters of PFM rather than the effective use of resources (Atan and Yahya, 2015).

Only recently, after reviewing the economic achievement and political demand in 2010, the government realised they urgently need a more integrative PFM framework to reach high income status as idealised by Vision 2020³². This should be supported by a comprehensive financial information, such as one produced by accrual accounting. By emphasising on the efficiency in total resources consumed in providing the services, the government believed that this step could assist Malaysia to become a developed nation. Therefore, today, all public organisations at the federal level have started to adopt accrual accounting approach as a preparation for full implementation in the near

³¹ According to Financial Procedure Act 1957 [Act 61] and Audit Act 1957, the Auditor - General is the officer responsible under the Constitution for the audit of the accounts of all Accounting Officers and all persons entrusted with the collection, receipt, custody and issue or payment of Federal Public moneys.

³² Vision 2020 was introduced by the fourth Prime Minister of Malaysia, Mahathir Mohamad during the tabling of the Sixth Malaysia Plan in 1991. The vision calls for the nation to achieve a self-sufficient industrialised nation, encompasses all aspects of life. In doing this, the government should achieve an annual growth of 7% (in real terms) over the thirty-year periods (1990–2020), so that the economy would be eightfold stronger than 1990's GDP of RM115 billion. This would translate into a GDP of RM920 billion in 2020 (EPU, 2010).

future. As highlighted above, prior literature argued on the low level of commitment from political and administrative leadership in Malaysia in implementing NPM reform (Siddique, 2010). Contrasting this point, recent studies claimed that the key actors demonstrated a strong commitment (Isa, Saleh and Jusoh, 2011) with positive belief (Atan and Yahya, 2015) to embrace such changes. Since both researches were prepared before the reform process through surveys which are limited to questions relating to commitment and readiness, the question of how the new accounting practices are being embedded in the MPS remain unattended. Hence, this merits serious scrutiny.

3.4 SUMMARY

The discussion on the current political, economic and cultural scenario, and the actual operation of other NPM reform initiatives in the MPS context has provided an assessment of the urgent need for accounting reform. However, despite its potential contributions to economic growth, the implementation of NPM policy has remained a contentious issue for some reasons. As highlighted in Chapter 2, other countries' experience in executing the reform is complex while the outcome is scarce. Besides suitability of the radical approach and accrual accounting, the unstable political environment coupled with the high level of power distance and bureaucracy meddling in every segment, the challenge can be even greater. Specific major point of contrasting views in the prior literatures has encouraged the research to deal extensively on how the key actors, particularly politicians and public managers, respond to the newly introduced accounting policy within the emerging economy dimensions. Whether all these conditions will materially affect the radical accounting reform process in the MPS, becomes a matter for empirical research. This is the focus of attention in Chapter 5 and 6 in which the views, opinions and experiences of users and producers of governmental accounting information are analysed and assessed.

CHAPTER 4

RESEARCH DESIGN

4.1 INTRODUCTION

As highlighted in the first chapter, this research considers the initial adoption of accrual accounting and its relationship with PFM within a developing country context. Since 2011, the Malaysian government has been progressively moving from cash accounting to accrual accounting reporting system. This process has brought into focus the involvement of various potential users and producers of governmental accounting information at different levels and their interactions with the new organisational practices. Here, the research extends on the previous studies to focus not only on field level actors, but to also cover the organisational actors at the same time. These include: accounting personnel, asset managers, external consultants, top policy makers, top management of public organisations, members of the Public Account Committee³³ (PAC) and budgeting officers. Hence, the attention will be given to assessing their views and opinions on the reform initiatives throughout the transition process.

The research design for social and human science exploration, being the focus of this research, require explicit assumption about three interrelated components of philosophical worldview, strategy of inquiry and method (Creswell, 2009). According to Crotty (1998), the philosophical worldview influenced by ontology and epistemology, will serve as a basic belief about the nature of the social reality that shapes the overall approach of the research. The strategy of inquiry will provide the connection to the specific strategy applied in collecting and analysing the empirical materials of the research (Denzin and Lincoln, 2011). Lastly, elaboration on the choices of a set of methods focusing on how to produce the knowledge through a set of procedures and techniques for gathering, analysing and interpreting data for the research.

Following this idea, this chapter will explain and justify the philosophical stance as well as the empirical approach implemented in this research. As will be explained in

³³ 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.

the next paragraph, CR will be utilised as a philosophical worldview, and institutional theory as the theoretical lens to provide the understanding and explanation of the changes event. In searching for the detailed answers for the exploratory research questions, qualitative approach will be 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. 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 the single type of data collection technique may impose an element of bias towards certain views that could influence the analysis of the research findings. In this case, the research event has enabled direct experience from the researcher to influence the selection of the overall research approach.

4.2 THEORETICAL FRAMEWORK

Previous studies on PSAR have frequently been based on either positivism or interpretivism, depending upon specific concerns. Both paradigms provide useful ground to aid the process of explaining and understanding the social phenomena but there are some elements offered by CR that heightens its possibilities to help illuminate the main questions of this research. At this point, it is important for this research to provide a brief understanding on positivism and interpretivism before explaining why these paradigms are not suitable for this research. The central attention of positivist is the search for a single truth. According to Guba and Lincoln (1994), positivist believes that the reality exist independently of human interpretation. Hence, the researcher could research the object independently without influence or being influenced by that object. In relation to methodology, Guba and Lincoln (1994) highlighted that based on certain theory and regularity, positivists often produce a solid prediction of generalised statements about causal relationship between independently existing and observable facts. Without seeking to ask 'why' question, the identified generalised statement then will be verified objectively through rigorous empirical testing using certain logical functions or algorithm formulae before it could qualify as valid predictors.

However, as noted by Ryan, Scapens and Theobald (1992, p. 9) this 'verification principle' is where positivism received many critiques on its limitation in terms of relevance and connection with the social practices, especially for entities that have no direct observational reference (Schon, 1995; Van Maanen, 1995). By employing

this paradigm, O'Mahoney and Vincent (2014, p. 16) argued that the researcher could only provide 'thin' explanation over the complex social phenomena. The credibility of positivism was argued further by May (2011), in its relationship with the nature of social inquiry³⁴, which focuses on an open system resulting from social activity that can never be certain and controllable. For example, the features of certain type of chemical could be controlled by the researcher in a laboratory where scientific experiment is conducted, whereas, the research on human behaviour requires a real-life setting; a setting with a condition that is beyond human power to control. This condition is subjected to various other elements that would determine the actual result of the research. In this case, the social world affects human behaviour and it does not exist independently. Many scholars, therefore, argue that social research cannot be measured simply in an objective way and isolated from their social environment, as that of the close system in natural science.

Acknowledging the weaknesses showed by positivism, interpretivists highlight the significant role of a researcher in actively interpreting social event by bringing the dimensions of actor's subjectivity into social science research. This is particularly because subjectivist or interpretivist believes that the existence of reality depends on human interpretation (Guba and Lincoln, 1994). Rather than predicting, interpretivists put extensive effort in understanding and interpreting the social environment by identifying the 'rules' and norm that govern the social behaviour, which inevitably entail abstractions from the reality. For example, Ryan, Scapens and Theobald (1992, p. 63) posited that 'social practices such as management accounting system are not natural phenomena; they are socially constructed' and 'can be changed by the activity of the social actors themselves'. Although this event has specific accounting rules that should govern the actor's action, the actor could alter or even break the rules depending upon the conditions under which they live. Supporting this view, May (2011) emphasised that human beings are continuously engaged with the process of negotiation through social interactions within their environment where nothing is strictly determined. Therefore, social events seek for a detailed understanding and interpretation from the researcher.

The example above also indicates the possibilities that one social event could have multiple realities, depending on how humans give their meaning to the environment and how it is interpreted by researchers. In doing so, it helps to expand the knowledge on the social research. This can be portrayed by various expansions of

³⁴ Social inquiry is an activity accounting for human activities of which it is a part (May, 2011).

epistemological framework associated with interpretivism including hermeneutics (Gadamer, 1975), social constructionism (Berger and Luckmann, 1991) and social capital (Bourdieu, 2011). As noted by Bernstein, it “opens the way to a more historically situated, non-algorithmic, flexible understanding of human rationality, one which highlights the tacit dimension of human judgment and imagination and is sensitive to the unsuspected contingencies and genuine novelties encountered in particular situations” (1983, p. xi). Yet, interpretivism requires a close relationship of understanding and interpretation process, often involving the deep abstraction and multiple complex matters, which makes it harder for novice researcher to reconcile back to the real world. There are also many realities constructed on one social event that have an equal position, while the validity and reliability of the knowledge would depend on the argument made by the respective researcher, besides the techniques applied in their research process. In this regard, O’Mahoney and Vincent (2014, p. 5) critiqued that ‘such a position run aground on hard facts’, as certain theories have a greater accuracy compared to others in representing the natural world.

Since the focus of this research is on the similarity or differences between the initial expectation and the actual application of accounting concept which involves the ideal form of technical accounting aspect (objective elements) versus actual contextual conditions that may shape or are being shaped by the actors’ action (subjective elements), it requires one paradigm that could help to understand both aspects of the knowledge. The acknowledgement of theoretical paucity, and an extreme view imposed by both positivism and interpretivism, motivates this research to find the middle approach, and to extend the privilege to CR as an ontology to explore the contextual interactions between institutions and processes of accounting change in Malaysia.

4.2.1 Critical Realism as Ontology

The philosophy underpinning this research is founded on critical realism. Its core assumptions and the ontological depth offers an interesting view for this research. As one of the key paradigms for social inquiry, critical realists believe that the world exists independently of the human mind and the phenomena occur regardless of the ability to translate it into knowledge (Bhaskar, 1975). Although this belief appears similar to positivism, Sayer (2000) highlighted that critical realists do not limit this world only to empirical facts, they still recognise the importance of human cognition in the knowledge derivation process. Based on this belief, a prominent figures in CR, Professor

Roy Bhaskar has subsequently advanced the differentiation between transitive and intransitive dimensions of knowledge that become the key features of CR.

According to Bhaskar (1975), transitive can be referred to as knowledge on certain objects or materials produced by human - such as ideas and theories. It changes continuously as the knowledge related to the objects often expands to generate new knowledge. In contrast, an intransitive dimension is an object that is not produced by human. Bhaskar (1997, p. 22) refers intransitive as the 'real things and structures, mechanism and processes, events and possibilities of the world'. For example, the reality of the sun, including its movement and rotation, exists independently of human perceptions, language or imagination. Its existence, occurrence and routines are relatively fixed and are quite independent to human activity. Therefore, the intransitive has often been treated as an object of science. By emphasising the difference between transitive and intransitive, CR allows the researcher to treat the object of the research and the process of researching it as a separate element that could enhance the research process.

In generating the knowledge related to an intransitive dimension, Bhaskar (1975) advanced the stratified ontological concepts. This concept reconciles the three interrelated layers of domain that constituted reality: empirical, actual and real. Regarding this, Bhaskar refers to the empirical as the domain of event or phenomena experienced by social actors, which normally could be observed. This domain is followed by the domain of actual, containing the experiences and events generated by activated mechanisms, which are sometimes unobservable. Hence, it requires proper conceptualisation and abstraction based on the interpretation from the observer. Finally, the deepest and largest layer among other domain is the domain of real, which often becomes the main concern of critical realists. According to Sayer (2000), this domain constitutes the realm of object, where the structures with their inherent causal powers and liabilities activating specific mechanism, engender observed events. This mechanism is not observable and can only be known through its effects. Hence, the human knowledge developed for this domain is provisional and subject to various social factors.

In summarising the relationship between these three domains, Danermark, Ekstrom, and Jakobsen (2001) suggested that the mechanism in the domain of real will trigger the event in the domain of actual; ultimately producing the observable event in empirical domain (see **Table 3** for details). Given the important function of the elements involved in the domain of real, critical realists therefore believe that the essence of knowledge lies on the underlying structures which serves as a 'generative mechanism' with specific causal tendencies to provide meaning to actors' action.

| | Domain of Real | Domain of Actual | Domain of Empirical |
|--------------------|----------------|------------------|---------------------|
| Structures | √ | | |
| Events | √ | √ | |
| Experiences | √ | √ | √ |

(Source: Bhaskar, 1978)

Table 3: Ontological Assumptions of CR

As CR recognises the world exists independently of human mind and the part of the world that comprises subjective human interpretations, both the natural science and social science research could employ this paradigm. However, according to O'Mahoney and Vincent (2014), the application of stratified ontology is quite straightforward in the natural science as compared to the social world. For example, we can identify the symptom of mental stress through the observation on human behaviour in the domain of empirical. This may include sadness, difficulty to sleep, struggle in focusing and even suicide attempts. In the domain of actual, the events causing the mental stress have triggered human emotions on how to respond to the life pressures that they have experienced. This is probably due to work-related stress, financial worries or chronic illnesses. Although we cannot observe how exactly they feel, they could share their mental condition with others that could lead the psychiatrist to identify the details of generative mechanism function in the

domain of real. From the psychological treatment, they could examine the relationship between the actual causes of mental stress with the state of emotions, in order to set off the associated hormone surge that effectively control human reaction towards mental stress. But, the determination of the whole human body function requires a detailed investigation before we could arrive to the knowledge about the domain of real.

In the social world, within corporate business for example, two rival companies from the same industries suddenly announce their merger decision. The industry participants and their internal stakeholders could witness this event in the domain of empirical. Further investigation in the domain of actual, examining the actual causes for the merger might lead them to imagine several reasons that could explain the occurrence, such as technical capabilities expansion, gaining competitive advantage or replacing leadership. Although management and financial stakeholders primarily view mergers initiatives as a financial endeavour, employees may see things a little differently. This is because the merger between two companies has some potential downsides for employees, who have to deal with immediate fears about the impact on their employment or business lines. Also, a number of other causal processes may lead to the merger, including global economic condition and the relevant government policies governing the industries. Only with deliberate examination at the deepest stratum we could identify the mechanism that specifically defines the interrelationship between the whole business operation for both companies and the issues of business survival that triggers their merger decision.

From this, the detailed mechanism of their merger decision at the domain of real could not be observed directly, and only the physical operation of the business strategy and the impact can be identified in our empirical observations. Hence, it is impossible to have the knowledge of all elements in the domain of real for both the natural and social world, except through a detailed and exhaustive investigation. Therefore, Sayer (2000) suggested, we should not just analyse and interpret the event that happens to precede it but most importantly, its underlying elements that activate the generative mechanism, especially in social events where the human is capable to reflect upon specific circumstances.

Moreover, one of Bhaskar's most articulate followers, Archer (1995) emphasised on the separated level of reality and distinctive emergent properties between structures and actors' action. In relation to this, Archer argued on the constant interaction between these two elements in which actor's action presuppose structures. This increasingly appears as an important general proposition to the research on modern organisations as it could enhance the non-conflation research through a sequential analysis with deeper understanding on the complex and continuous interplay between action (human activity) and the events which structure the activity as demonstrated by Leca and Naccache (2006), Delbridge and Edwards (2013) and O'Mahoney and Vincent (2014). For example, in explaining how actors inhabit institutions among the independent designers in the superyacht field, Delbridge and Edwards (2013) highlighted the usefulness to keep structure (industry's structure) and actor's action (the way superyacht designer responds to the new practices) in distinct analytical categories. By doing this, they have demonstrated the possibility to reflect on how exactly the individual categories interact and reassess their relationships in specific contexts as part of a greater whole. As explained by Archer (2003), the structure will influence human actions' and humans could reproduce and transform the structure. Whether the power to transform the structure will be fully exercised or not will depend on the association of structure with other conditions in the specified context. These bring us to the significance of 'retroduction' argument to provide causal explanations to social research in a logical manner (Bhaskar, 1975), and the role of institutional logic as will be explained in a later section.

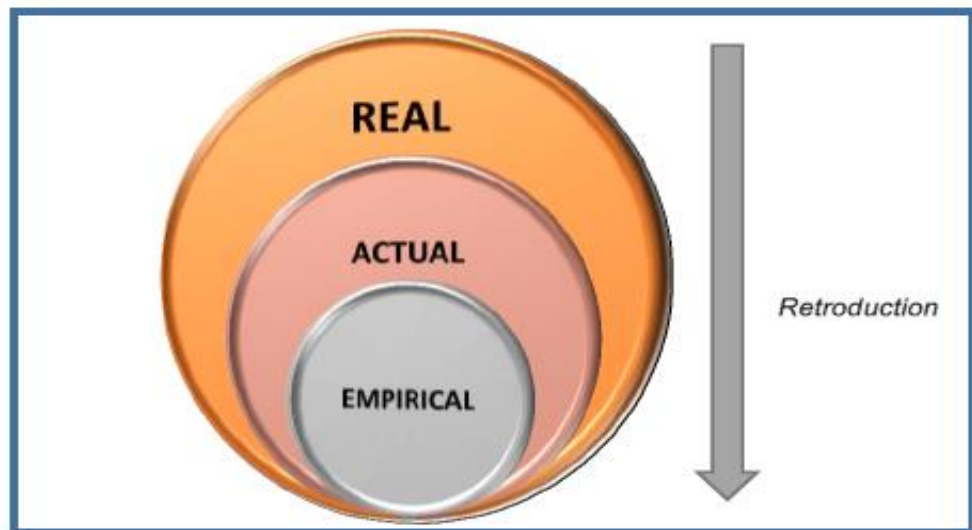
The 'retroduction' concept, by which Bhaskar (1975) described as containing an explanation on the notion of causal power, will provide a bridge linking the experienced event to the generative mechanism that provides ground to the actor's action. Unlike the closed system with internal stability and constant external condition, the causation in an open system is more than the frequency or pattern of occurrence of any specific event. This is because the social world is full of powers where the actualization of any social events is often retarded by any others powers within the open systems in which they are located (O'Mahoney and Vincent, 2014). As the nature of mechanism is not directly observable, with the existence of competing powers, it requires the 'retroduction' concept to provide the causal explanation and to establish the contextual conditions that give rise to the particular event.

One study that reflects this concept is that of Leca and Naccache (2006), who analysed the institutional entrepreneurs in France. In this study, they focus on how the causal powers of structures and mechanism govern a new activity of the social rating agency within the context of French financial markets. They have found that the new measurement model, has influenced the rating industries to consider the companies' social performance as one of the important criteria in rating process. This subsequently introduced a new causal power of measuring techniques on the companies' corporate social performance to operate the new model into traditional fund management process. Together with the significant role played by institutional logics, they highlighted that although we cannot directly see the structures, through the causal power emphasised by 'retroduction' concept, they still can feel the interaction and the dialectical relationship between structure and mechanism that change an existing event. Therefore, rather than relying solely upon the measurement on the pattern of observable events or interpretation of an abstract meaning, the heart of critical realist is metaphorically to 'dig deeper' so as to identify the 'real' 'intransitive' essences and the emergence of causal powers which underlie conceptually mediated empirical patterns (Sayer, 1992; Archer et al., 1998; Fleetwood, 1999).

Based on the point stated above, it appears that the core assumptions and ontological depth held by CR offer an appropriate view for this research. As advocated by Leca and Nacache (2006) and O'Mahoney and Vincent (2014), CR would provide clear insight into theoretical and methodological principles, in which neither positivism nor recent interpretive approaches can reach. In particular, through the differentiation of the transitive and intransitive, the stratified view of reality and the causal explanation given by 'retroduction' principle offers a strong foundation on how we could enhance the detailed conceptualization of the complex and messy scenario of the changes process. Furthermore, the application of the stratified ontology is important as it recognises the continuous interaction between the structures and the operation of the mechanism. It provides a clear separation between the three domains that could enhance the investigation on the relationship between the actual events and the detailed mechanism that determine the reform process.

Although the existence of CR is well acknowledged in social studies, it still lacks empirical uses, particularly in accounting research. As this research

allots major emphasise on the importance of a strong association between human experiences and their contextual condition, CR offers bountiful opportunities to expand the existing knowledge on PSAR. Furthermore, prior literature has shown that the reality in implementing PSAR was always different from the initial expectation. Thus, through ‘retroduction’ principle and the recognition on the separation between the structure and actors’ action, CR can help to explain the unintended consequence event as it frequently occurs in PSAR. As pointed out by Leca and Nacache (2006: p. 644), “Using structures always implies unpredictable consequence”. **Figure 2** illustrates the position of the three layers of domain constituting stratified ontology that will be applied in this research.



(Adapted from: Bhaskar 1975)

Figure 2: Stratified Ontology

4.2.2 Institutional Theory as Theoretical Lens

The theoretical underpinning of this research in understanding how accrual accounting becomes institutionally embedded within the MPS is, institutional theory. This theory is relevant to this research as it focuses on the social interaction and the notion of institutional logics to explain the variability in the diffusion of organisational change within a specific context (Meyer and Rowan, 1977; Thornton and Ocasio, 2008). In public sector environment, the change activities are conducted by actors at various governmental unit in large organisations hierarchy, where every actor has their own interpretation, preference, value and belief over such changes. These sometime are

misaligned with the organisational expectation, consequently leading to variation and decoupling scenario. Moreover, prior PSAR literature suggested rather than technical practice, accounting should be treated as a social practice where the usage of social theory could provide a better explanation. It should be framed within a larger social, cultural, economic and political context. Hence, the theoretical approach chosen for this research is intended to serve as a response, at least in part, to the general call by Hopwood (2000, p. 763) for “research that can provide more adequate insights into the wider institutional and social positioning of financial accounting”. This is also consistent with the suggestion made by Burchell et al. (1985) and Hopper and Major (2007) who studied accounting in the contexts in which it operates.

As highlighted in Chapter 2, the trend of accrual accounting adoption for governmental reporting and financial management keeps expanding since the last three decades without fundamentally affecting the technical processes at the core of public organisation. Given the close relationship between the governments and its external environment, this compels other countries to continue incorporating similar initiatives. Hence, many accounting scholars relate this scenario to the concept of isomorphism³⁵ and institutional pillars. These two concepts are critical in explaining the initiation of reform and have become central ingredients of the research on the PSAR using institutional theory as theoretical lenses (Jacob, 2012). In relation to isomorphism, some of PSAR scholars utilised this concept to examine the outcome of accrual accounting applications. They concluded that the adoption is mainly to gain legitimacy: to conform to the expectation of the organisational field and to secure their position, as opposed to rationality for improved efficiency (Feldman and March, 1981; Argento and van Helden 2008; Pina, Torres and Yetano (2009); Adhikari, Kuruppu and Matilal, 2013). For example, Pina, Torres and Yetano (2009), highlighted that most of the local governments in EU countries become isomorphic to the myth of accrual accounting as promoted in the organisational field. Their data confirmed DiMaggio and Powell insight that the coercive, mimetic and normative has provided

³⁵ According to DiMaggio and Powell (1991, p. 66), isomorphism is a “constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions”.

significant pressures to the governments in EU countries to implement such new accounting practices.

Beside isomorphism, some researchers have used institutional pillars concept introduced by Scott (1991) to explain the pressure towards legitimacy in accrual accounting adoption. For example, Harun, Peurseem and Eggleton (2012) demonstrated how and why the Indonesian government promoted the idea of accrual accounting at municipalities' level. The evidence shows that the idea on accrual accounting was proposed by a few of the western-minded technocrats working in the MoF and had previously been studied in Western countries. This idea is subsequently built according to rules (regulative), binding expectations (normative) and constitutive schema or pattern of the actors (cultural-cognitive), but without generating substantial benefits to the Indonesian government. From these, research found that both perspectives have provided the justification principle to the increasing trend of the change in the new accounting norms practices. It has also enabled the explanation on how different public organisations converge to homogeneous practices and become persistent to the new accounting rules.

However, Dacin, Goodstein and Scott (2002) argued that organisations change over time, to fulfil the demand and expectation of its local circumstances and wider institutional environment. Hence, the justification on the legitimacy has only partially explained the story about changes process and the reality in changes part remained unexplained. According to them, this is where early institutional theory received some critics. Their argument corresponded with Scott's (1991) suggestion that the changes from one practice to another comprises of deinstitutionalisation and institutionalisation process. Furthermore, Greenwood, Suddaby and Hinings (2002) argued that the intention and pressures to change do not guarantee the success of institutionalisation of the new practices. Therefore, they suggest that rather than concentrating on the sources influencing homogeneity, future institutional research should advance alternatives concepts to explain the heterogeneity and its strong ties with the role of social actor - which shapes the organisational responses towards the process of institutional change. This is indeed closely related to the central focus of this research that emphasises on the role of social actor in the changes process.

With this regard, recent empirical studies have sought to address that criticism by focusing on the detailed examination of the change process through the idea of institutional logics. According to Thornton and Ocasio (1999, p. 804) institutional logics are “socially constructed, historical patterns of material practices, assumptions, values, beliefs and rules” (1999, p. 804). In other words, it is the same set of belief systems that guide the cognition and behaviours of actors in multiple societal sectors. Thus, Thornton, Ocasio and Lounsbury (2012) advocated institutional logic as a meta-theoretical perspective useful for analysing the connection among individuals, organisations and society in translating the organising principles towards action. Moreover, Lounsbury (2008) suggested that the power of institutional logics can be demonstrated through the research of how multiple beliefs and rules structure cognition, and guide decision-making of actors. This feature is important as it offers an open architecture to understand the acceptance and execution of new principles within ‘institutional complexity’³⁶ at the multilevel analysis.

Taking into consideration the points stated above, the research will use the concept of institutional logic in examining the initial adoption of accrual accounting in the MPS. Building on the work of Greenwood et al. (2011), the use of institutional logic is intended to assist this research in investigating a situation where two competing logics; social welfare logic and efficiency logic coexist in the MPS domain during the transition period. Applying the concept of institutional logics will also help this research understand how individual actors with different roles at macro and micro level are influenced by the changes event. This matches the suggestion made by Reay and Hinings (2009) who highlighted the importance of the work that considers the interdependence between organisational field and individual organisations in understanding institutional change.

The theoretical application on institutional logic as demonstrated by Townley (2002) and Reay and Hinings (2009) in the research of institutional change within public sector environment offers a glimpse on this research. In the research of the outcome of the incorporation of business planning and performance measures as new institutional logics at public organisation in

³⁶ Greenwood et al. (2011, p. 318) refers institutional complexity as a condition when organisations “confront incompatible prescriptions from multiple institutional logics”.

Canada, Townley (2002) highlighted that institutional logics are seen as frames of reference by the actors that guide their sense-making. They found that the meaning of NPM initiatives is articulated in the vocabulary of actors, and the different dimensions of rationality subsequently used to motivate resistance and to define the value of cultural organisation's identity that contradicts with the new logics. Similarly, Reay and Hinings (2009) utilised institutional logic to examine how the two competing institutional logics (business-like logics and medical professionalism logics) continued to coexist for a lengthy period and how the actors manage this situation in Canada health care. The evidence shows that during the processes of institutional changes, the physicians and managers developed mechanisms of collaboration by maintaining separate-identities to accomplish the work demand, thus supporting the co-existence of different logics at the field level. This conceptualisation provides a new understanding of field-level arrangements that may provide an important foundation for this research.

Besides institutional logics, the above literature also highlights the changes in organisations' practices by introducing new interest, values, and beliefs that may complement or contradict with the existing template. According to Greenwood et al. (2011), this would influence the actor's response towards institutional complexity. Regarding this, they provided a useful framework in

Figure 3 to start exploring the organisations' response to institutional complexity. This framework implies that the complexity confronted by the organisation in the changes process is fundamentally shaped by the field structure and organisational attributes. Yet, by providing the broad relationship between the field and organisational level, it reveals little about how the individual organisation manages and responds to institutional complexity. According to Pache and Santos (2010), this gap needs to be addressed given the prevalence of multiple logics within organisations and their implications on organisational and field outcomes.

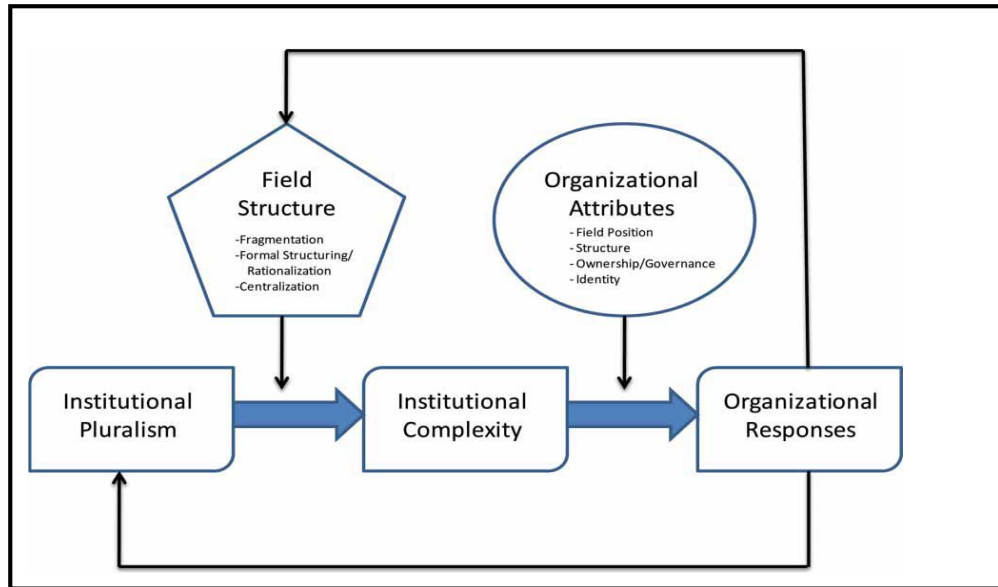


Figure 3: Organisational Responses to Institutional Complexity

Earlier, Greenwood and Hinings (1996) provided a model explaining the conditions that influence the actor's responses towards radical organisational changes. Every element introduced in this model has important roles in which the precipitating dynamics will coerce for change, whereas enabling dynamics will encourage the changes process. As displayed in **Figure 4**, the model underlines the interplay between precipitating dynamics (interest dissatisfaction and values of commitment) and enabling dynamics (power dependencies and capacity for action) that shape the actor's response towards the changes process. Regarding interest, Greenwood and Hinings (1996) argued that since change initiative is often introduced at field level based on the best practices, the individual organisations will endorse the change if the existing practice could not properly accommodate its internal actors. Besides interest dissatisfaction, the value of commitment is important in determining the direction of change. They argued that this is conditioned by the level of embeddedness of the organisation with the prevailing practices and suggested four patterns of commitments shown by actors on the change activities, either: status quo commitments, indifferent commitment, competitive commitment or reformative commitment. The status quo commitment is a condition where all groups of actors are committed to the prevailing institutionalised template-in-use while the reformative commitment happen if all groups are against the template-in use and prefer to articulate the alternative template. The indifferent commitment appears when groups of

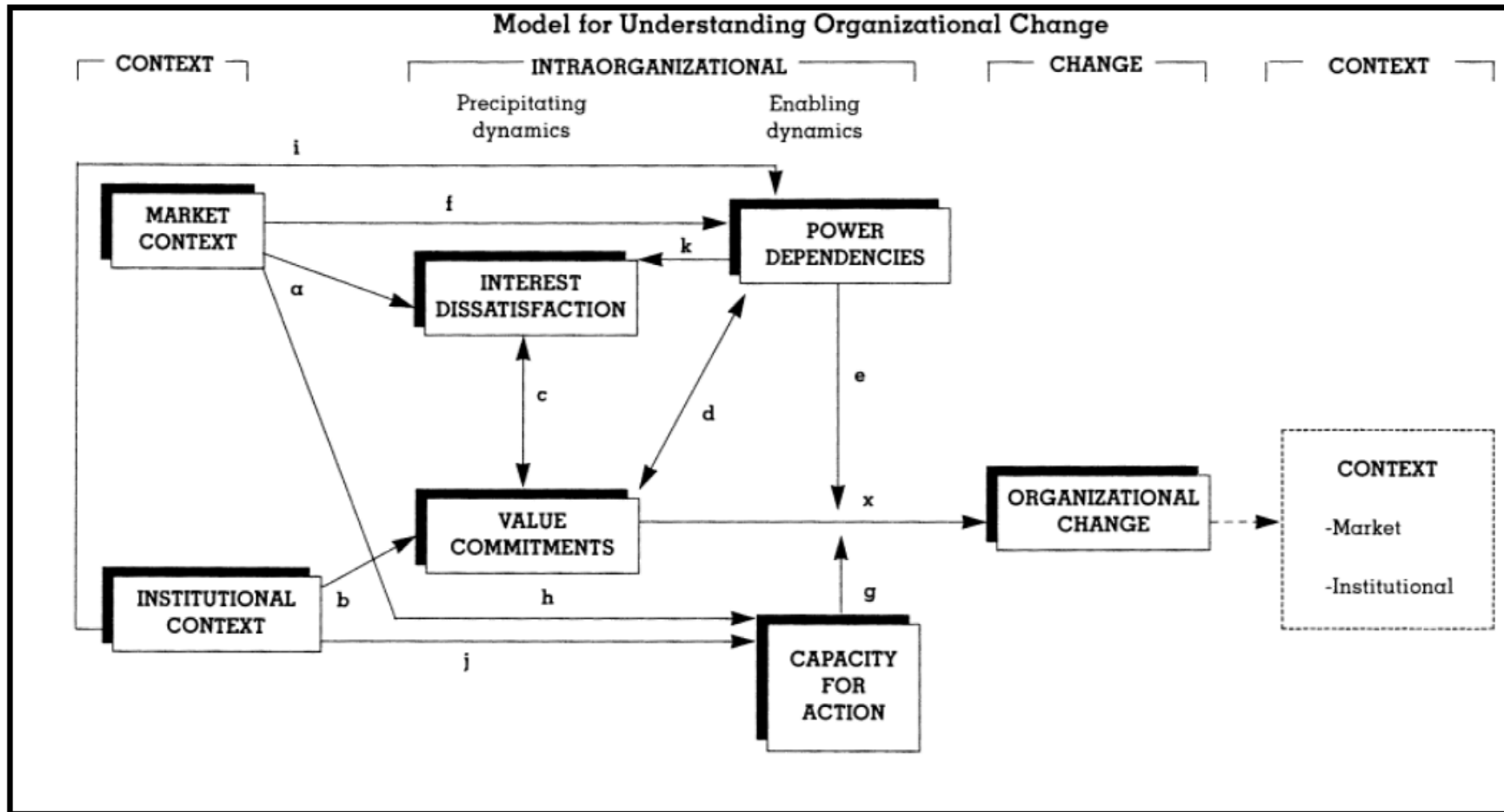
actors are neither committed nor opposed to the template-in-use and the competitive commitments happens when there is a mixture of commitment; some groups support the template-in use and others prefer an articulated alternative.

Turning to the enablers of the organisation's changes, Greenwood and Hinings (1996) considered the important involvement of capacity for action and power dependencies in determining the possibility of radical change. For power dependencies, they recognised the power of influence of certain group of actors such as organisation leaders having reciprocal relationship with value commitments. For capacity for action, they highlighted on the actor's capacity both in terms of the availability and mobility conditions to achieve the changes' intention. This capacity depends on the skills, competencies and experience possessed by the actors to manage and implement the specified changes activities. All the four elements from this model assisted Argento and van Helden (2009) in exploring the radical reform initiatives in Dutch water chain. In this research, they demonstrated how the strong power of some group of actors had managed to turn the central government's radical ambition into gradual change. Although the model is particularly helpful for this research, an important point missing in this framework is the detailed component in examining the organisational change itself. It does not describe the critical stage of change in which the actor needs to go through and, consequently, become institutionalised.

In relation to this, Dambrin, Lambert and Sponem (2007) offered a framework concentrating on the process of institutional changes based on the enhancement of a model developed by Hasselbladh and Kallinikos (2000). This framework elaborates on the function of institutional logics in providing the basis for change to the actors together with its linkages to contextual condition that influence their response on the multiple and competing logics conditions. Moreover, they suggested that the success of institutionalisation process requires a coherent link between the four concepts as presented in **Figure 5**, explaining how the new approach is translated into action. This involves inter alia: dissemination of new ideals, establishment of new discourses to materialise the new ideals, development of new techniques to support the new ideals and the internalisation of specified techniques. **Table 4** summarised the definitions of these four concepts, differentiated by the

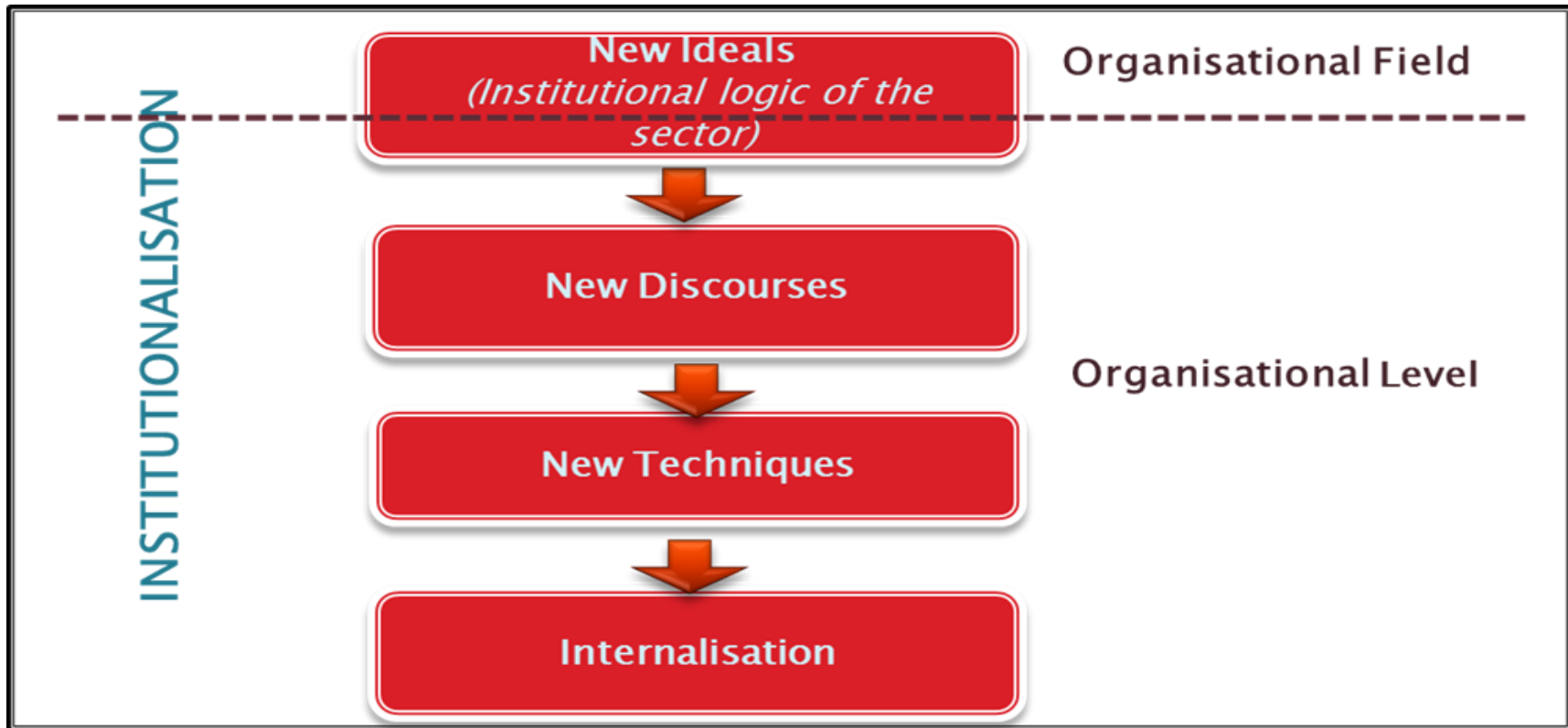
detail and accuracy describing the new practices. Although it appears as a stepwise process, this framework is useful as an analytical device to disentangle the composite totality that made up the process of institutionalisation.

Applying that framework in understanding the implementation of accrual accounting in Indonesian public sector, Harun, Peurseem and Eggleton (2012) revealed that the limitation in technical capacity, the strong association with the old habit and the predominated social histories have undermined the transformation process. Thus, the new practices are adopted by Indonesian municipality on a ceremonial basis. This research, however, found that the framework lacks detailed explanation on the important element influencing the process of change. Taking into consideration the limitation in the previous framework for understanding how individual organisation manages and responds to institutional complexity and its interrelationship with field level on the changes process, this research decides to combine the relationship between the elements discussed by Greenwood et al., (2011), Greenwood and Hinings (1996) and Dambrin, Lambert and Sponem (2007) as a theoretical framework for this research. This is illustrated in **Figure 6**.



(Sources: Greenwood and Hinings, 1996: 1034)

Figure 4: Model for Understanding Organisational Change



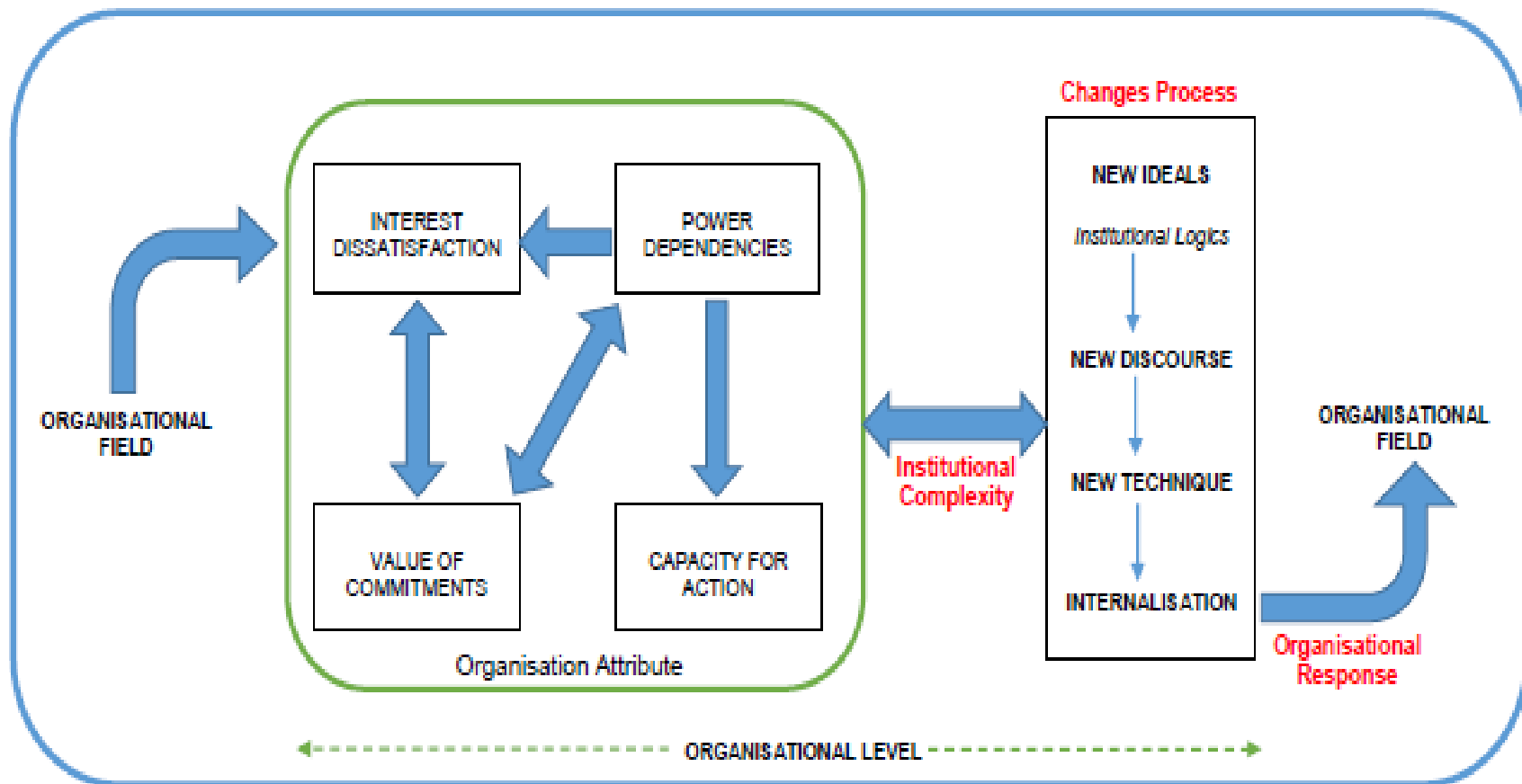
(Adapted from: Dambrin, Lambert and Sponem, 2007, p.178)

Figure 5: Institutionalisation Process

| Concepts | Definitions | Features | Applications in the organisational change |
|-----------------|---|---|---|
| New Ideals | Dissemination of the initial intention and basic ideas of the new practices | Too vague, high-level and abstract. | Narrative description to introduce the new logics that are transferred from organisational field into organisation level. Example: speech, announcement |
| New discourses | Evolvement of basic ideas to more structured in order to materialise the initial intention. | Formulation of detailed specification of the features and descriptions on how to ensure the achievement of the aim within larger framework in proper documentation. | Translations of the general announcement into policy statements and strategy which elaborate the features of the new practices Example: written documentation specifies the aim, the roles and the flow of technical applications of the new practice. |
| New techniques | Elaboration of the new practices to control the actor's action and its outcome. | Systematic way of measurement and documentations for controlling and monitoring outcomes. | Development of control instrument that specify the measurement criteria for governance purposes. Example: guidelines, standards |
| Internalisation | Individual's enactment through role development. | Purely cognitive and social products that combine the individual interpretation and action. | Actual practices which gradually become embedded in social context. Example: Individual's ways of acting upon reality |

(Adapted from Dambrin et al., 2007 and Hasselbladh and Kallinikos, 2000)

Table 4: Summary of the concept in Institutionalisation Process



(Adapted from: Greenwood and Hinings, 1996, Dambrin et. al. 2007 and Greenwood et al., 2011)

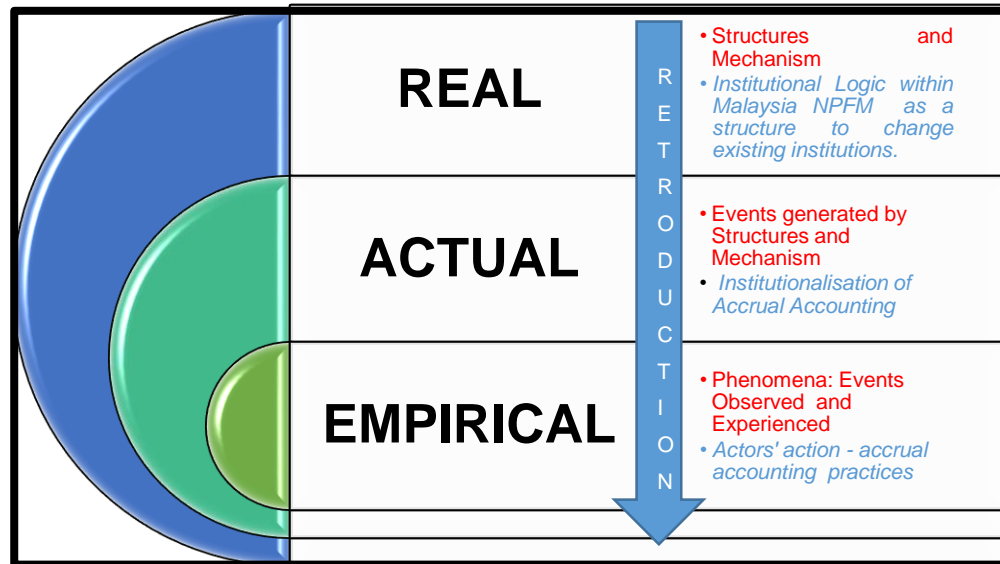
Figure 6: Theoretical Framework

4.2.3 An Integrated Approach

In order to shed light on the three research questions posted earlier, a comprehensive theoretical framework that could provide a thorough understanding on the interdependencies between actors' actions and the process of changes is required. Regarding this, Leca and Naccache (2006) demonstrated how the combination of CR and institutional theory enhanced their understanding on the changes in French institutional entrepreneurship. Through this research, they posited that CR considers the actors' action and the structures as two separate ontologies with a related level of reality that would permit the articulation of an institutional approach without conflating them. Moreover, they suggested that institutional logics is an underlying element to the institutionalisation processes that explain the event and condition necessary for the activation of generative mechanism. The model that they introduced has opened up avenues for other empirical research to articulate the important element of CR and institutional theory.

Consistent with that, CR paradigm and institutional theory as the philosophical assumption will provide a direction on how to understand the accounting reform process in this research. In particular, the analysis of the complex structures of social relations will be made on three different layers of reality. Starting from the domain of empirical, this research will examine the key actor's action in performing their roles during transition period both at the field and organisational level. Then, at the deeper layer of domain, this research will scrutinise the existing and new pattern of institution event in two different phases: development and implementation. For detailed understanding on the operation of abstract structures and mechanism available in the domain of real, this research argues that it contains institutional logics that provide significant influence on structures and mechanism that shape the actor's thought and act. Moreover, retroduction will elaborate the causal power that exists in a dual relationship of institutional character and actors' action. By bringing together the CR's stratified ontology and the retroduction concept into the theoretical framework as shown in **Figure 7**, this research believes that it could facilitate the process of understanding the abstract knowledge of generative mechanisms, thus permitting more nuanced interpretations of the nature and practice of accounting reforms within the MPS context. This philosophical assumption will inform this research especially in the

interpretation of the issue and analysis of data during field work. It will also provide a basis for the critical reflection throughout the research process that connects the thought with the nature of reality.



Indicator: **Element of Critical Realism** (Adapted from Bhaskar 1975)
Element of Institutional Theory

Figure 7: Relationship between CR and Institutional Theory

4.3 STRATEGY OF INQUIRY

Prior researchers indicated that the effort to gain solid evidence on the complex governmental accounting issues in multifaceted environment is not a simple task and demands extra careful consideration (Carlin 2005, Caperchione, Christiaens and Lapsley, 2013). Evidence also suggests that the PSAR framework does not generate predictions that could be tested, as it operates under NPM context that is considered as ‘negotiated’ phenomenon and depends largely on the economic, political and social conditions (Humphrey and Miller, 2012, p.314). Thus, there was a variety in the reform progression, generating the debate among PSAR scholars. In the event of incessant debates ignited by previous researchers, Blumer (1969) recommended that ‘qualitative inquiries’³⁷ should be adopted as it allows us to grasp the same perspective as the participants’ experiences and understand the event. This is also consistent with the critical realists’ approach, as they believe that causal power will not always generate the same effect in different contexts (Sayer, 1992). Additionally, Creswell (1998, p. 15) suggested that qualitative approach enables the researcher

³⁷ Qualitative inquiries approach as defined by (Denzin and Lincoln, 2000, p.3) is a ‘...research things in their natural settings, attempting to make sense of, or to interpret, phenomena in terms of the meanings people bring to them’.

“to build a complex, holistic picture”. Together, these demonstrate that qualitative approach would provide better causal explanations and interprets participants’ meanings within a specific context.

This prepares the ground for the adoption of qualitative approach in this research. The purpose of adopting the qualitative strategies is to learn from the participants, in a setting, the way they experience the changes process, the meanings they put on it, and how they interpret what they experience. Rather than to produce statistical generalisations or predictions about the relationship among different factors which are normally sought by positivists, this research attempts to explore thoroughly the accounting reform process by understanding the structures and substantial relations of social connection as well as its interactions with ‘complex mechanisms’³⁸. The research believes that these relationships have causal powers, which generate the sequence of events and explain the whole transformation process in a logical manner.

4.4 RESEARCH METHOD

4.4.1 Case Study

In the attempt to understand the processes of accounting change, this research adopts the ‘case research’³⁹ approach. It is employed for more nuanced understanding and an explanation on how generative mechanisms in PSAR operate and interact under a specific contextual setting, within FGoM environment. This approach is consistent with the critical realist’s main aim; to identify the sequences of causation by highlighting the significance of context. Furthermore, this is in-line with the suggestion made by Patton (1990), which highlight the ability of case research in gathering comprehensive and systematic data to provide in-depth information about the subject under studies. Yin (2014) also highlighted the significant contribution of case research to reveal and to provide better explanation in a wider base than any other approach, thus consequently maximising the opportunity of learning. This is important for a better interpretation of the policy research and governmental changes initiatives, which are often challenged by complicated problems.

³⁸ Complex mechanism in this research refers to the complexity of governmental bureaucracy involved at various levels.

³⁹ As defined by Yin (2009, p. 18), case research is ‘an empirical inquiry that investigate a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident’.

Resonating the points stated above, many previous studies on PSAR acknowledged that case research provides deep and rich understandings of the social nature of complex mechanism because it could support the collection of almost any types of evidence that is available in and relevant to the research. Some of them carried out the research in one specific context, for example Harun, Peurseem and Eggleton (2012) who examine the accounting reform process in Indonesian public sector in one of the municipalities. Some other accounting scholars extended their research to include comparative studies either based on countries, such as the research by Ellwood and Newberry (2007) on PSAR in UK and New Zealand, or, among different public organisations in one particular country as implemented by ter Bogt (2008), where he selected twelve different municipalities in the Dutch local government.

Due to the restriction in observing the overall mechanism in changes event directly, the research adopts case studies in some of the FGoM's public organisations. This is crucial in understanding the operation of reform mechanism in detail. The research believes that each public organisation has the potential to bring out different aspects of the same phenomena as they have specific functions and unique contextual environment. As suggested by Ackroyd and Karlsson, (2014, p. 31) examination at diverse setting would help(s) to "clarify both the nature of a mechanism and the range of variation in both process and outcome that can occur". Hence, from 24 executional ministries, three ministries were selected for a detailed analysis. This includes the Ministry A (MinA), Ministry B (MinB) and the Ministry C (MinC). **Appendix A** illustrates how the case studies position in this research.

Since 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. Despite these differences, each of them owned community assets. The nature of this asset is relatively distinctive of the public sector (i.e. infrastructure assets for MinA and MinC; and cultural collections for MinB). To date, the specific regulation on valuations and reporting disclosure for community asset is still unresolved both at the national and international level (Pallot, 1997; Biondi and Lapsley, 2014). Hence, the

research could reveal how the Malaysian government deal with unresolved issues.

In doing this, each of the selected cases will be treated as an ‘instrumental case research⁴⁰’ to allow the researcher to identify the most relevant categories and to specify their range of variability (Stake 1995, p. 3). Even if they are similar in terms of structures and mechanism, the specific context will shape the way key actors respond to the national policy. Thus, special attention will be given to the similarities and the differences in the responses shown by these public organisations and how their responses affect the reform processes. In this regard, the context may help to explain to what extent, and why, the impact of institutional change is similar or varies among different public organisations that provides the opportunity for the researcher to unearth more compelling evidence than has previously been available. This, also could enhances our understanding on how different structures and mechanisms at organisational fields are interconnected in the production of an event within the wide characteristics of the MPS environment.

4.4.2 Data Collection Technique

In gaining greater understanding into the various responses and unique nature of the above case studies, comprehensive data were collected through document reviews, semi-structured interviews and observations. The connection between research questions and the data collection technique applied is summarised in **Appendix D**. It follows the suggestion made by Patton (1990, p. 185) who highlighted that ‘the validity, meaningfulness and insights generated from qualitative inquiry have more to do with information-richness of the cases selected and the observational or analytical capabilities of the researcher than with sample size’. Moreover, Sayer (1992) reminded that studies using a CR as ontology need a robust data collection technique for a better understanding of the social events. Adding to this point, Stake (1995) proposed that the significance of rich description of the case studies should be based on multiple sources of evidence over a period of time.

⁴⁰ Case research is broadly categorised by Stake (1995) into two: intrinsic case research and instrumental case research. The purpose of intrinsic case research is to learn everything about the particular case while instrumental case research is where the case is used to gain insight on the phenomena or relationship within it.

For those purposes, 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). More specifically, the research conducted three separate data collection phases. For exploratory stage (2014), the researcher collected a combination of document reviews, observations and interview data to understand how accrual accounting was introduced into the field (the MPS) and how reform actors strategized the reform activities at lead agencies. The preliminary research at two organisations were also conducted at that time to get an overview of the reform process at these organisations. In a second stage (2015), the researcher interviewed organisational actors at each of the three organisations to get a deeper understanding of the individual organisations, along with the logics in which it was embedded. The researcher met with the reform actors in their respective organisations, in each of which the research spent between four and six days. This physical presence allowed the research to get a sense of the culture and norms in each organisations. During the third stage (2016), building upon the initial analysis earlier, the researcher collected supplementary data on the recent reform activities through e-mail and video conferencing. The goal of this is to complement some of the findings and to update the research on the recent reform progress, as well as its outcome.

Overall, this research has collected more than hundred archival documents, conducted a total of fifty-four interviews and four observations. The research stopped gaining the data at the point of saturation where there are diminishing returns to additional participants. If the research continues to collect and code, the new data ceases to yield new themes, but only reaffirm existing codes and categories. 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.

4.4.2.1 Document Reviews

The process of data collection for this research began with reviewing the content of a large number of public and organisational documents. This can be classified into two main groups: (i) the relevant legislation, including the Financial Procedures Act 1957, Treasury Instruction and Circular; (ii) preparatory documents, PAC Reports, Internal Audit

Reports, minutes of meeting and press release. These documents were collected from the respective public organisation websites including the AGD and Parliament. As a secondary data, the document provides background information of the reform strategies, policies, guidelines and activities implemented throughout the reform process.

According to Creswell (2009), the documents offer information in an original form that is easily accessed and they often function as substitutes for records of activity that cannot be directly observed. From this process, the research found that this method also enables the researchers to explore a wide range of materials, covering different areas and time. However, the clear limitation in the use of secondary data is that it is not prepared specifically to answer the research question in a required form. Also, it may contain some bias requiring careful consideration from the researcher (Creswell, 2009). Therefore, in this research, the data will be supported by other source of data, through interviews and observations.

4.4.2.2 Semi-Structured Interviews

Along with document reviews, data was also gathered through semi-structured interviews. As suggested by Stake (1995), interviews are very useful to obtain description and interpretation from informants especially for the social event, which cannot be directly observed. This method allows for some structure, consistency and control over the line of questioning with a certain degree of flexibility (Creswell, 2009). Since researching institutional logics involves the investigation of vocabularies, identities, and rationales for action, Townley (2002) acknowledged that semi-structured interviews could help explain responses to institutional pressures involving competing rationalities.

A broad spectrum of participants, with different roles at different levels, were selected for interviews to facilitate multi-level analysis (see **Appendix E** for details). This is also to maximise the validity and reliability of information from participants and to minimise the distortions, biases, errors and misunderstandings (Holstein and Gubrium, 2004). The key actors at lead agencies (field level) were chosen to capture the view of those involved in disseminating, formulating the idea of accrual

accounting and potentially using the accrual-based information. At the ministerial level (organisational level), interviews were conducted with officials who were directly involved in implementing reform activities. Additionally, interviews were conducted with consultants who were appointed to assist the lead agencies and ministries in executing the reform activities. In identifying the key actors, the initial group of key informants were drawn from a thorough discussion with an organisational gate-keeper using the researcher's personal contacts. Subsequently, the research implements a snowball technique⁴¹ where each participant was asked to recommend other qualifying participants.

Most interviews, therein, were conducted in 2015, in order to support the interviews conducted in exploratory stage and to see the patterns over time. Eighteen actors participated in the first stage; four interviews were conducted as initial pilot followed by fourteen interviews as a comprehensive set in the preliminary research and another thirty-six in the second stage. The interviews were held in the informant's office and ran from 45 to 90 minutes. It was recorded and then transcribed literally (i.e. verbatim transcriptions), to be analysed with NVivo 10⁴². Then, a summary of each interview were submitted to and reviewed by each participant as early as possible to ensure the quality of the data; whether it has appropriately interpreted and represented their views. Given the potential sensitivities of the matters discussed and the desire for the participants to be as candid as possible, participants were informed that the interviews would be reported in a manner where statements could not be attributed to specific individuals. However, the results are presented in such a way so as to enable the distinction between possible differences of opinion among the actors in each jurisdiction.

To ensure the consistencies of the data gained for each organisation, an Interview Guide containing a list of main questions and interview questions was used. As shown in **Appendix F**, the main questions were formulated based on the theoretical framework and the questions used

⁴¹ The snowball technique is a method that yields a sample based on referrals made by insider knowledge or people who know others who present the characteristics that are of research interest.

⁴² NVivo is a qualitative data analysis software package produced by QSR International, useful for managing and analysing electronically (see Whiteman and Cooper, 2011; Bazeley and Jackson, 2013). Most importantly, it aids systematic data coding for large database in this research.

by other studies; for example Harun, Peurseem and Eggleton (2012), who investigated the adoption process in Indonesia, and Connolly and Hyndman (2006) who examined the reform experience in UK. Based on the theoretical framework, the interview guide was organised around the nine broad areas: new ideals, new logics, new discourse, new techniques and internalisations, interest, value for commitments, power dependencies and capacity for action. Moreover, the interview questions were developed in accordance with the roles of each participant where they are asked to discuss their experiences and expectations for the new accounting practices. It also covers the whole aspect of the reform process from the initial introduction up to the implementation. However, this was not strictly used so as to allow participants to openly reveal relevant information as much as possible and to keep the interviews flowing in a natural way.

4.4.2.3 Observations

Although the major source of the data for this research is obtained through the interviews and document reviews, there are limitations learning from what actors verbally say or write. In this research, this limitation was overcome by 'observation'⁴³. As recommended by Patton (1990, p.25), 'direct participation in and observation of the phenomenon of interest may be the best research method'. This is because observation offers several advantages. According to Stake (1995) and Creswell (2009), this technique enables first-hand experience with the participants, providing ways to check for nonverbal expression of feelings, and potentially revealing unusual aspects of the event which are sometimes impossible to gain access to by any other method. Thus, it enables the researcher to observe events that participants may be unable or unwilling to share when doing so would be impolitic, impolite, or insensitive. It also gives the opportunity to observe situations that participants have described in interviews, therefore, making the researcher aware of distortions or inaccuracies in the description provided by those participants (Marshall and Rossman, 1995). Therefore the research believes this technique as a way to increase the

⁴³ In defining observation, Marshall and Rossman (1989, p. 79) refers this technique as "the systematic description of events, behaviours, and artefacts in the social setting chosen for research".

validity of this research and assist the researcher to have a better understanding of the phenomenon being studied.

Consistent with the above suggestion, this research extended its data collection process to include observations with 'passive participation'⁴⁴. In particular, the observation was made to capture how the reform actors react and behave during the transition process by considering the possibility of all important elements that shape the actors' action. The purpose of the observation in this research is to take the researcher into the reform setting in order to gain a closer understanding and a better insight of the accounting transition process and the interaction between the actors and their context. For these purposes, four observations were carried out in 2014 and 2015.

First, the observation of progress meeting at lead agencies revealed its own story, the problem, the solution or even unresolved problem. These helped the researcher in determining who interacts with whom, grasping how participants communicate and resolve their problem, reviewing the progress for every ministry and identifying the most prominent issue discussed in the meeting. This is beneficial for the research especially when it was conducted at the beginning of the data collection process because it enables the researcher to grasp the latest implementation issue faster, thus providing the researcher with a source of questions to be addressed by the participants and guiding the selection of illustrative case studies. Second, the researcher becomes a 'complete observer' in one data collection sessions at each of the three organisations. Since the reform involves massive number of documents and various participants at different levels, this method also allows the researcher to establish a rapport with potential participants, consequently improving the research process. After the observation, the research compared the content of recorded video or audio with minutes of meeting to ensure the consistencies of the data.

⁴⁴ As described by Spradley (1980), passive participation is where the activities are observed in the setting but without participation in activities.

4.4.3 Gaining Access

The issue on gaining access often challenges the autonomy of the researcher. According to Okumus, Altinay and Roper (2007), this might influence the data collection process, especially for in-depth research in big organisational settings. In the context of this research, this is not a significant barrier as the researcher enjoyed the unique advantage of being a civil servant who worked in the FGoM, particularly at MoF and AGD. She is therefore very familiar with the intricacies of the service where colleagues, friends and acquaintances abound.

Nonetheless, as the research directly involved government programme, it had to adhere to a certain protocol. An official approval was required at the level of Economic Planning Unit. Important information regarding this research was also communicated to the key government executive. Additionally, to ease the level of understanding and to encourage participation among the gatekeepers and key informants, a formal document containing the purpose of the research, the nature of the access desired, the strategy to deal with sensitivity and confidentiality information, and the benefit of the research findings was prepared for and communicated before the event took place.

4.4.4 Data Analysis Approach

One of the crowning activities in this research is the analysis of data. In explaining the process involved in analysing the qualitative data, Patton (1990) suggested the sequential activities of 'data condensation'⁴⁵, patterns identification and framework constructions based on the linkages among the emerging main patterns before the essence of the data could be revealed to others. In more details, Miles, Huberman and Saldana (2014) proposed that in data condensation the first cycle of coding was assigned directly to the data chunks, whereas the second cycle of coding was applied based on the pattern of individual codes emerging from the first cycle. This two-cycle process is referred to as open coding and axial coding by Strauss and Corbin (1998). Subsequently, all the developed codes are grouped into a smaller number of

⁴⁵ Data condensation is "the process of selecting, focusing, simplifying, abstracting and /or transforming the data that appear in full corpus (body) of written-up field notes, interview transcripts, documents, and other empirical materials" (Miles, Huberman and Saldana, 2014)

categories to form a data display⁴⁶. After preparing the data display, the final analysis process is prepared by drawing a conclusion and verification. All these require thorough interpretation from the researcher and an accumulation of important events before it emerges as complete stories.

In organising and interpreting the empirical evidence, the research worked iteratively between the research questions, institutional theory and PSAR literature. For the identification of main themes, the researcher read and coded relevant archival materials, interview transcripts and video recording. Initially, the research was guided by the nine elements derived from the theoretical framework provided by Greenwood and Hinings (1996) and Dambrin, Lambert and Sponem (2007). However, these were not used rigorously so as to allow the data to openly reveal its story as much as possible. Besides that, cross-case synthesis was employed in analysing the data gathered for multiple cases. According to Yin (2003) and Miles, Huberman and Saldana (2014), the cross-case synthesis built through the similarities and differences across the cases could deepen the understanding and provide clearer explanation on the specific subject investigated. Once the narrative chronological accounts were constructed, the research confirmed its accuracy by reporting them to a small number of participants.

More specifically, the five categories developed by Dambrin, Lambert and Sponem (2007) on institutionalisation process were used to organise the presentation on chronological changes event, while, the four different elements introduced by Greenwood and Hinings (1996) were used as a guide to describe the important causes influencing how organisations respond to the reform activities. The analysis started by drawing a chronology of the changes to its core practices made during transition period, focusing on two key dimensions; the users and producers, and their relationship with the extent and nature of the reform activities. The research then directly applied the two theoretical questions to the accounts: what are the users' expectations on the reform and how do different public sector organisations manage and respond to the changes process? While sorting the themes for question number one, special attention was given to recurrent discussions and opposing views about the duality of the PFM in which accrual accounting operates and their

⁴⁶ Data display is a summary of information organize according to researcher's understanding of the event under research. This includes networks, charts and matrices (Miles, Hiberman and Saldana, 2014).

associated tensions. The objective, means and demands prescribed for social welfare logic and efficiency logic were identified and summarised in **Appendix G**.

Building on this, the research proceeded to explore on how and why each organisations responded to conflicting demand by focusing on the behaviour enacted by the organisational actors during the transition period. In doing this, the research compared the responses against the demand prescribed by each logics and identified differences and similarities across response patterns. The findings for these two questions were intended to answer the question of the extent of the fulfilment of the user's expectation so far, before it uncovered the real value of accrual accounting practice in supporting efficiency logic in the MPS. From the data provided by the participants, besides the nine themes, there were two additional main themes and forty-one sub-themes that emerged inductively. After themes identification, the research developed data display to systematically arrange the thinking on the relationships between one themes and another within the embedded data. During this process, the data were extrapolated to discern systematic patterns and interrelationships in the form of flow chart as displayed in Chapter 5 (**Figure 8**). Finally, the research switched the focus to a dialogue between theory, data and prior literature on PSAR. This process led to the insights presented in the next three chapters.

4.5 ASSESSING VALIDITY AND RELIABILITY

In qualitative inquiry, the researcher is treated as the 'instrument' to the research. According to Patton (1990), the validity of qualitative research relies heavily on the skill, competence and rigor of the researcher in performing fieldwork. In ensuring the validity of this research, two techniques were employed. Firstly, a triangulation was made based on multiple sources of data, collected from diverse range of setting and different group of actors for the purpose of developing coherent justification for themes. This technique was proposed by Lincoln & Guba, (1985), highlighting its usefulness in minimising bias arising from single method of data collection. Secondly, a self-reflective journal was maintained throughout the research process to record values and assumptions that shaped the researcher's interpretation. As suggested by Ortlipp (2008), this journal is important for individual reflexivity and for creating transparency that may mitigate the possibility of bias. Moreover, given the researcher dual role as interviewer and colleague to the participants, this information has been

clarified from the beginning so that the reader could understand the researcher's position (Merriam, 1988). For reliability, the researcher maintained a field notes and utilised high quality audio-tape recording. The appropriate protocol and electronic database was also utilised accordingly.

4.6 SUMMARY

This chapter starts with a clear perception of the research questions and the information being sought. Thereafter, qualitative approach using multiple case studies enabling the collection of virtually any types of relevant evidence is identified as the most suitable strategy of enquiry. The data collection method employed is therefore a combination of document reviews, semi-structured interviews and observations. The method is underpinned by critical realism and institutional theory, which are used to explain the financial accounting changes process and its potential connection with PFM technique, through the actors' experience towards the institutionalisation process. This is necessary to capture the role of accounting in the complex social practice of public services. With the above details of the methodology for the research, the stage is now set to address the research questions on the accounting transition process in the FGoM.

CHAPTER 5

THE INITIATION AND IMPOSITION OF ACCRUAL ACCOUNTING

5.1 INTRODUCTION

The following two chapters provide the empirical findings of the exploration on the institutionalisation of accrual accounting in the FGoM. In particular, it demonstrates how the reform actors interpreted and translated the new ideals of efficiency logic into practices. The data will be divided into four different phases; by tracking how their deal with the multiple logics born from the main event transpired in the transition process of governmental accounting. The phase begins with the dissemination of the initial intention of accrual accounting at the MPS as outlined in Section 5.2, followed by the formulation of strategies and development of new accounting techniques at the field level in Section 5.3. The new regulations and technique were then applied by the federal organisations through the internalisation process as presented in Section 6.1. The final phase are outlined in Section 6.3 focusing on the immediate outcome of the response at the field and organisational level of the changes process.

Detailed explanation is given according to eleven main themes and forty-one sub-themes emerging from the data and structured according to the model for organisational response to institutionalisation process. The data proposes an extension of the original framework displayed in **Figure 6** (Chapter 4) by highlighting the importance of institutional logics and the power of strong political ideology in shaping the radical reform initiatives in the MPS environment. This research shows that the new logics have influenced the actors' perception and receptivity, thus, causing variability in the organisations' responses towards the changes process. The interaction between political will and institutional logics are especially critical as the evidence indicate a close relationship between the politicians and the government in determining the public policy within MPS context. The full model summarising the organisational response within the MPS environment is outlined in **Figure 8** as follows.

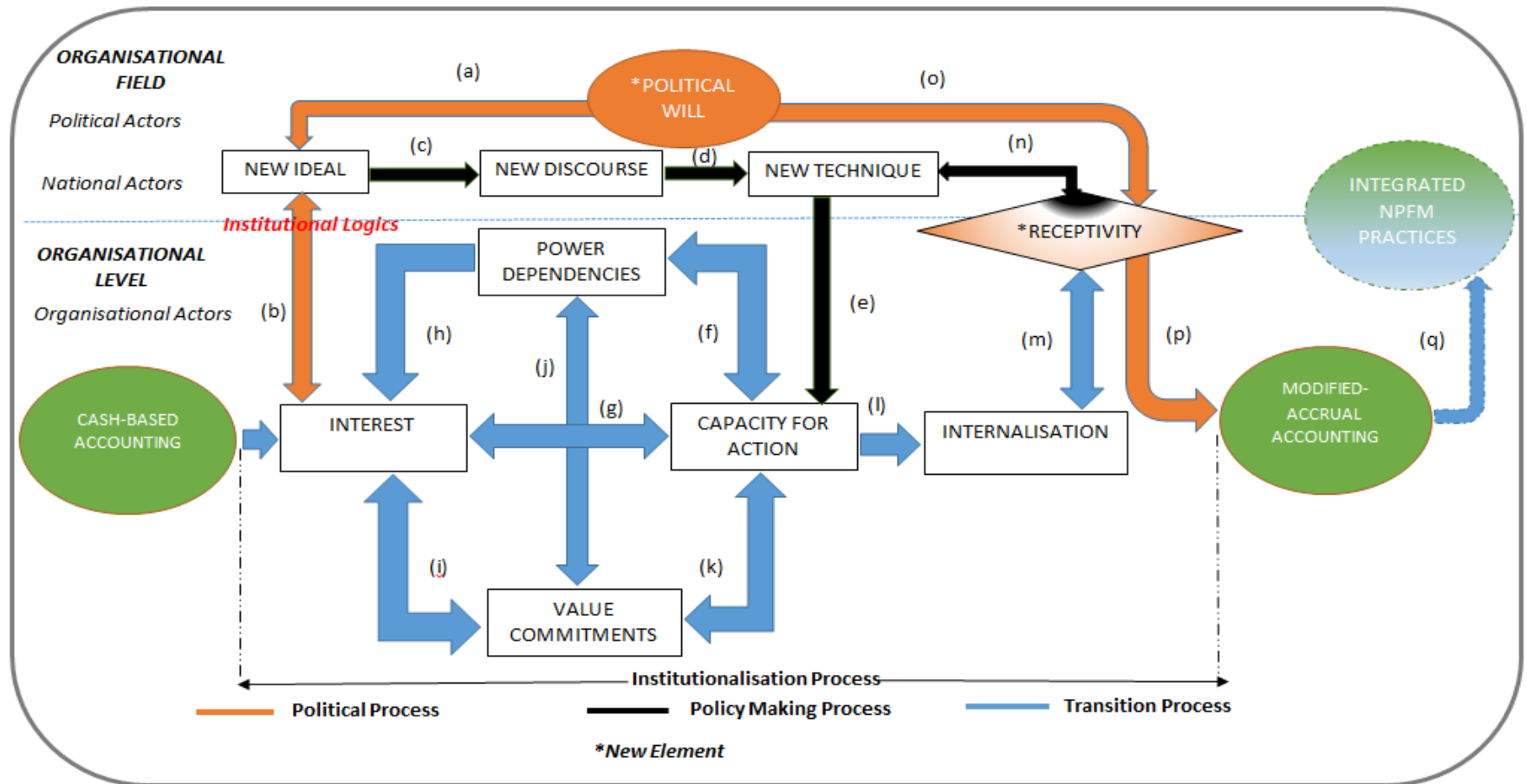


Figure 8: Model for Organisational Response on Institutionalisation Process in the MPS

5.2 INITIATION

In the MPS, the government initiate the adoption of accounting reform by promoting a new ideal of accrual accounting for better economic stability. In the early policy documentation related to the Tenth Malaysian Plan⁴⁷, the government affirms its strong belief that the developed nation status could not happen without comprehensive, accurate and timely financial information to enhance decision making within NPFM framework. As reform actors become more aware of the role played by accounting in new framework, new demands are being imposed that led to the conceptual merits of accrual accounting and the emergence of efficiency logic emphasised on managerialism principles in the MPS. Moreover, from the interviews many participants highlight that the reform initiatives are related to the unstable political position, which demands a more comprehensive and publicly available financial report to enable the publics to better monitor the government spending behaviour. During the transition process, however, the research found that these demands contradict with the traditional public management cultures and image boost intention emphasised by the dominant political stakeholders. Consistent with this, the data highlight the close relationship between the two elements, new ideals and institutional logics, each of which is elaborated in the next two sub-sections.

5.2.1 New Ideals

Recent economic climate and instability of local political position inspired the Malaysian government to apply private sector's model in public practices. The policy documents indicate that the contraction of Malaysian economic conditions is heavily affected by the local and international business climate. Due to deceleration in manufacturing industries, particularly electronic products, the government was confronted with the threat from the middle-income rank. Furthermore, the peak global economy crisis in 2008 resulted in the instability of the main trade commodity products' prices, including petroleum and gas, which lowers the national revenue. Nevertheless, to become a fast-moving developing country, Malaysia needs to complete various physical development projects, thus, requiring massive capital investments. Despite striving to become a developed nation by the year 2020, the economics statistics demonstrate a sluggish growth rate since 2008. This

⁴⁷ Tenth Malaysian Plan is a comprehensive blueprint prepared by the Economic Planning Unit (EPU) of the Prime Minister's Department and the MoF with approval by the Cabinet of Malaysia to allocate the national budget from the year 2011 to 2015 to all economic sectors in Malaysia.

has widened the gap between the targeted and the actual achievement of GDP. Within this multiplicity of concerns, the government therefore critically require prudent fiscal management to ensure sound fiscal position in absolute terms.

Apart from economic demands, many participants have attributed this initiative to the unstable local political scenario resulting in a public call for a change towards more transparent government. In-depth interviews with politician and public managers at MoF revealed that the implementation of accrual accounting in Malaysia is aligned with political agenda. According to one of the participants, *“This is to boost the public support, therefore, provide a strong political will for the current government to adopt accrual accounting”* (U5). This claim resonates with several political events that had indeed occurred before and during the transition period. It started with the shocking result of the twelfth Malaysia general elections in 2008, whereby the federal ruling party, BN, lost its two-thirds majority of the parliamentary seat for the first time since 1969. It continues with the worst result of the general election in 2013 when the BN witnessed a larger swing in the vote and the strongest opponent seat ever.

Targeting on the issues, including the way the government manages the economy condition, the larger opposition side has raised public concern on the financial position of the government, especially the liabilities. The opposition party is continuously provoking the general public by highlighting several weaknesses of the ruling party in managing the public fund, including the recent money politics scandals associated with the Prime Minister, through the mass media and parliamentary debate. The Federal Government also faces stronger checks-and-balances in a PAC session. Sharing on this, one of the participants reported, *“Even in parliamentary debate, they start asking about the total amount of government contingent liability. They want to know the exact figure of government assets and liabilities”* (U1). Hence, the government has no choice but to work hard to meet the public' expectations and to call for a change in the financial disclosure format and the whole PFM if it wishes to stay relevant in the Malaysian political landscape.

Consequently, Dato' Sri Najib upon coming to power on 3 April 2009, pledged for a more transparent government through radical reform. After his 100th day as the 6th Prime Minister of Malaysia, he appointed an independent economic

expert as a member of the NEAC, which is responsible for providing a recommendation to reshape Malaysia's economic activity and to realign the direction for gaining a higher income nation's status as idealised in Vision 2020. Based on the review of Malaysia's economic climate, NEAC through one important source document, New Economic Model (NEM⁴⁸), has suggested a structural transformation, i.e. radical and comprehensive change on public financial framework. This transformation initiative is a combination of the Economic Transformation Programme (ETP) and Government Transformation Programme (GTP), in which accrual accounting has been determined as a key reform initiatives that should be implemented by all federal ministries within four years from its announcement. In this document, NEAC claims that, "accrual accounting will provide more reflective and comprehensive information on the financial position of the government for prudent and sustainable fiscal management" (NEAC, 2010). They assert that this will help the government achieve better transparency and reduce budget deficit of about 3% by 2015 and near budget neutral by 2020. The old modified-cash reporting basis is believed to be insufficient to support the new government aspiration. Therefore, NEAC demands a serious effort in delegitimising the long-established public sector accounting practices and bring to the fore the new conceptions that provide a foundation for a new normative framework.

Inspired by the private sector's technique and faced with an intense pressure in political situations and global economic conditions, Dato' Sri Najib unveiled the NEAC's recommendation on 3 December 2010. Subsequently, the new ideals on accrual accounting were disseminated to various potential users and producers at different levels of federal government. To provide an overview of the reform process, the chronology of event is summarised in **Appendix H**. By changing the structural and institutional practices, the government hopes that this could minimise the political and economic tension. Does the introduction of the new ideal on accrual accounting generate different expectations that initiate the institutional complexity? The following themes will identify and discuss the possibility of origins of conflicting institutional

⁴⁸ NEM is the document summarising NEAC's recommendation on the comprehensive transformation programme focusing on seven NKRA, specifically to improve the socio-economic growth among the citizen. This suggestion was meant to achieve three primary objectives, which is high income (using GNI per capita as an indicator), inclusiveness (enables communities to benefit fully from the wealth of the country) and sustainability (meets present needs without sacrificing future generations).

demands when the principles associated with private sector practices are applied in the public sector environment.

5.2.2 New Institutional Logics

In disseminating the new ideals on accrual accounting in the MPS, the lead agencies (the MoF and AGD) at field level try to instil the underlying logics in the new PFM framework. As emphasised by Chief Secretary to the Government (CS),

'There has been a paradigm shift in the priorities of PFM, from identifying resources for public scheme funding to fiscal prudence, efficiency and transparency in public spending...One of the key initiatives to achieve this target is to adopt accrual accounting' (Hamsa, 2014).

Highlighting the relevancy of the NPM practices, the CS recognises accrual accounting as a means for the enactment of change in the MPS environment. The awareness and interview sessions with top management of AGD confirms their support for this initiative. Previously, apart from planning and decision-making purposes, accounting played a minor role in the economic development, as its information was mainly for government legislation. Their descriptions highlighted the importance of changing financial reporting and PFM practices from the social welfare logic (modified-cash accounting) to efficiency logic (accrual accounting), as summarised in **Appendix G**. They believe that the new accounting approach illustrates the possibility, and even the necessity, for accounting to play a significant role in the achievement of developed countries status.

In doing this, the NPFM framework requires more active participation from the users as opposed to the previous approach. The precise identification of the potential users and their actual needs is important as it influences the way the lead agencies formulate the policy measures and develop the implementation plan to ensure it is aligned with the new efficiency logic for the achievement of the predetermined target. From policy documents and interviews, research identifies numerous potential users who should be involved in the Malaysian NPFM process. They include finance managers and budgeting officers at central agencies (particularly in MoF and EPU) and ministerial level, the top management of the ministries, auditors and politicians (specially appointed minister for specific ministry). Besides individual users, the highly organised

institutional constituencies have the potential to use government financial information including Public Account Committee, who is always on the alert of any financial management deficiencies.

When a new logic is introduced to the field, new expectation arises among the key users. In this research, research found that different groups of potential users have different expectations on accrual accounting. Consistent with the new ideals promoted by lead agencies, many believe in the four new principles that support the efficiency logic: cost effectiveness, accountability, accuracy and transparency. Although at varying degrees based on their existing tasks, there was general recognition that the previous template was far from optimal. Besides, the evidence reveals that the top management and politicians expect accrual accounting to display ‘image boost’ position. **Figure 9** summarise the particular demand identified in different groups and the next sub-section will further discuss on every principle.

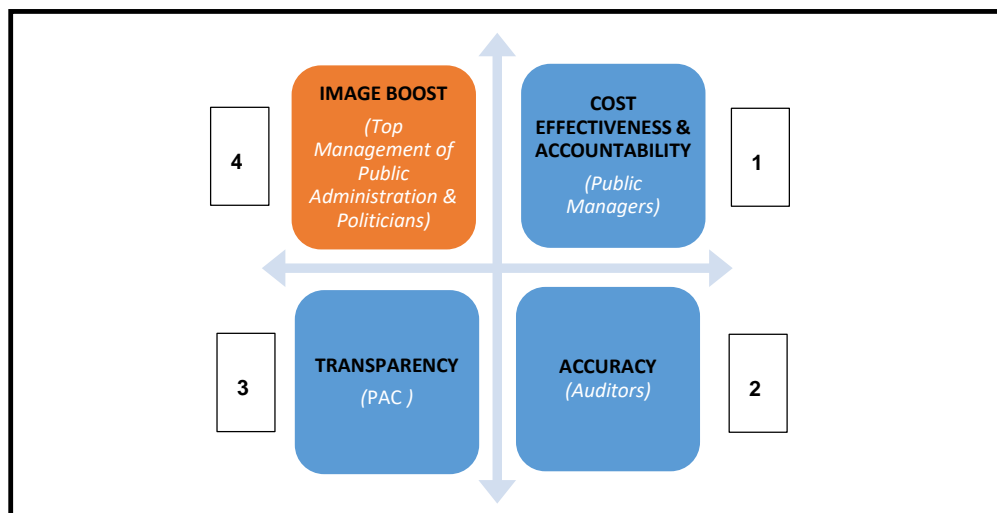


Figure 9: Multiple Demand from Potential Users

5.2.2.1 Cost Effectiveness

It was evident from the policy documents and interviews that public managers at national level expect more comprehensive information from accrual accounting to enhance decision-making process for greater cost effectiveness at the national level. As declared by the CS in his officiating speech,

“Accrual accounting will contribute significantly to improve decision-making and enhance efficiency, as well as effectiveness of government

spending, through the creation of accurate and accessible financial information” (Hamsa, 2014).

Echoing this statement, the SG of Treasury in the interview with PricewaterhouseCoopers Malaysia, emphasise that *“The key initiatives to achieve the reduction in the budget deficit is to adopt accrual accounting. This is in line with the Government’s intention to embrace OBB in the near future”*. From these statements, both key actors confirm the primary purpose of accrual accounting; which is to support the application of new budgeting approach, OBB, to reduce public spending.

This in turn, was assumed as a necessary precondition for the pursuit of reduction in annual deficit and public debt. From the interviews, many budgeting officers start to compare the logics behind both PFM practices particularly on the differences in the aim and features that would possibly affect their work routine. For example, one of the budgeting officers from MoF stressed that, *“Although the modified-cash basis has proven advantageous to provide the cash information for short-term decision making, it lacks important future information for the OBB”* (U3). This statement indicates that to prepare for government’s budget under the new approach, they critically need the information on long-term financial commitment, and yet the previous accounting basis could not furnish such requirement. Alternatively, they have to seek that information separately from AGD, requiring extra time and effort before the decision could be made.

Long term commitment was particularly emphasised by a group of finance manager. As argued by another participant from Fiscal and Economic Division, *“It involves a massive amount of money over the long run, and yet the government didn’t consider all this fixed commitment in the current budgeting process”* (U4). Again, by highlighting the limitation of modified-cash based report, the participant discussed how the hidden future commitment such as PPP and contingent liability, will significantly affect the previous budgeting process. Although they did not allocate this huge amount of expenses for parliament approval, the government still needs to bear this liability through loan or leasehold arrangement. This has negatively affected the cash flow position as the finance cost has continuously increased the

level of deficit. With the adoption of accrual accounting, both groups of users hope that the more comprehensive disclosure in financial report would be able to convince the government to prioritise the debt repayment before creating new expenses that impose an additional finance cost in future. This would consequently help the government to prepare for more prudent spending and effective debt management for long-term sustainability.

Contrasting that point, another participant highlighted their scepticism on this ideal by commenting:

“It’s impossible to achieve prudent spending if the government continues to prepare their annual budget in cash. Furthermore, nobody has discussed the proper mechanism to link between OBB and accrual accounting...It seems only useful for compliance purposes” (PC 3).

“We never had any detailed instruction and discussion with AGD on how to use accrual accounting information. Although we’ve set up proper governance structure to monitor this, in reality it doesn’t work that way. So, there’s nothing much we can do about efficiency” (U6).

In the absence of proper fiscal planning mechanism and its link to the reform’s aim, both participants are unclear on the use of accruals and how the new logics would affect their current work practices.

5.2.2.2 Accountability

A significant number of public officials, as revealed in the research, expect accrual accounting to be able to generate comprehensive financial information necessary for evaluating the performance, at both the macro (the government) and micro (public organisations) level. The expectation is especially apparent when every ministry is required to produce its own financial statement. From macro perspective, an official from National Budget Office affirmed that,

“Accrual accounting covers both, the Operating Expenditure and Capital Expenditure. Currently, we report these expenses to different parties. With reform, we can see the real value of the spending. Not only the total amount of spending, but the result of spending for every ministry (U3).

Since the government started the implementation of OBB, the new PFM framework opens up the possibility for the budgeting officer at central level to properly measure the performance of every ministry in producing goods or services as agreed between the public and the government, by comparing the total amount of expenditure utilised in achieving the predetermined KPI. This framework could not be employed under previous accounting approach, as some information and financial statement are unavailable for every ministry for detailed comparison purposes.

Initially, research found that this intention is in-line with the expectation from SG on the application of accrual accounting information in budget appropriation process. As highlighted by one of the SGs, *“We should use accrual accounting to allocate more money to the ministry with better position, higher revenue and assets or the profit centre ministry...”* (PMC 1). In this statement, the SG suggested that the government should prepare the budget allocation according to the financial performance of the organisation. However, other top management from different ministries argued that *“Performance in public sector is not about the lowest cost or higher value in assets”* (PMB 7). As the primary purpose of the public organisation is not only to collect revenue, and showcase a good position, but rather to serve the public needs, the participant, through this statement, claims that accrual accounting is not the best approach to measure accountability for public sector.

From micro level, some participants highlighted the importance of accrual-based financial statement to SGs in controlling the organisations' expenses that potentially enhance their accountability. As emphasised by one of the SG, *“It will tell how much your ministry is worth and what the ministry's financial health is. As a Controlling Officer, we need to know the financial position of all the department under your ministry”* (PMC 1). By highlighting this point, the participant expected that the new organisation's financial statement will enable him to actively monitor the cost incurred in running the operations at every layer of his organisation. Supporting this point, another SG claimed:

“Accrual accounting is a tool to capture the whole operations' economic transaction which is useful in identifying whether we're using our money effectively ...and of course, fulfilling our accountability especially with the

new integrated system ...So, the money that are allocated to us will need to be spent wisely” (PMA 1).

Since the public organisations have a high structure in its hierarchy, the more detailed information could help the SG to ensure the fund is utilised by DG for its intended purposes. Moreover, the SG believes that a new accounting system with a standardised IT platform will, at any point of time, assists the internal analysis on the pattern of cost expenditure, thus easing the regular monitoring by ministry and central government. This is similar to the steps taken by most developed nations.

In contrast, rather than comprehensive information, some of the top management emphasise on more relevant information. As argued by one of the DG,

“We only want monthly expenses figure in a cash-based format, that’s all. Easy, how much money that we have, the balance and what is our forecast. As an operational leader... we want to ascertain how much we’ve to accommodate our plan” (PMB 7).

Focusing on short-term plan, the participant still prefers modified-cash information as compared to the accrual-based. This appears to be the case as accrual accounting produces simpler information without a mixture of cash and accrued information in one single report. Moreover, the budgeting officer suggests, *“Since the budgeting process is still on a cash basis, some accrual accounting information such as depreciations are not relevant for operational decision making” (U5).* This finding indicates that although some parts of Malaysian PFM require new financial reporting approach, the government still kept the traditional cash budgeting approach that did not support the full usage of accrual-based accounting information. This has restricted the flow of efficiency logic causing variability in user preference on accounting choice as discussed in Chapter 6 later.

5.2.2.3 Accuracy

Besides cost effectiveness and accountability, research found that other group of users expect more accurate information from the adoption of accrual accounting. In the MPS, the internal auditors are responsible to reinforce the control on financial management internally, while the

external auditors are liable to verify the accounting report so as to ensure the amount spent by the organisation is according to stated rules. Although different in tasks, both types of auditor are from the National Audit Department (NAD) responsible for strengthening the Government financial management system. Consistently, one of the auditors expected that, *“With accrual accounting, it’s easier for me to detect any irregularities in the government expenses. Currently, many of the government transaction were expense-off”* (PMB 5). From this statement, the auditor implies that the limited features of modified-cash basis have hidden many financial transactions which causing difficulties to detect any mismanagement such as fraud, loss of asset and misuse of the public funds. With more detailed information produced by accrual accounting, they believe it could reveal more complete story as an evidence for the irregularities. This is important since the government recorded huge wastage resulting from deficiencies in previous PFM practices.

Furthermore, the auditor anticipated the reform to possibly enhance the audit procedure that could eliminate several flaws in existing PFM practices. Discussing this, another auditor highlighted,

“For the item that we’ve never reported to the public such as assets and PPP, under accrual accounting, we’ll perform additional verification procedures relating to the value, the ownership, the physical existence and the usage of the asset itself. Then, we’ll highlight the discrepancies in which the organisation needs to put in necessary effort to rectify the condition” (PMC 7).

Besides highlighting several new audit procedures, the auditor in this statement hopes that this initiative will encourage the auditee to rectify the weaknesses as revealed in audit findings. Moreover, one of the heads of internal auditors suggested, *“More accounting personnel will improve the quality of financial information, thus reducing our work”* (PMA 4). Since the reform requires a larger number of accounting personnel to cater to the new accounting process, the auditor hopes that this will improve the accuracy of accounting’s figure. Therefore, with these changes, the auditor expects more accurate and reliable government’s financial information.

5.2.2.4 Transparency

With the introduction of accrual accounting, this research suggests that the PAC is emphasising their special concern on transparency. The data from documents review and interview sessions shows that this group of users assumes that the more comprehensive and detailed financial disclosure will improve information flow to the parliament and the public, as it enables them to scrutinise and monitor precisely how the public fund is utilised for. As one participant who attended the PAC's session commented,

“Majority of PAC’s members assumed that the deficiency highlighted by Auditor’s General occurs as some of the government financial information are not available for public scrutiny” (PC 2).

Supporting this view, one of the opposition leaders who is also a member of PAC accused that,

“They absolutely lied, because all of the government expenditure are not spent under the reported government expenditure. All are spent via off-Balance Sheet item, MRT for example, the biggest infrastructure project. It cost us RM22 billion, yet it’s not in our budget for parliament approval...Therefore, we urgently need this reform to reflect on our real financial position rather than be saddled by pretending information” (U8).

Both participants believe that the PAC could not have a clear picture on how the government actually spent the public fund due to the insufficient information provided by cash-based financial statement. An opaque financial statement has consequently restricted the PAC's function in enhancing Malaysian PFM. They hope this can be rectified by adopting the accrual accounting approach.

Despite being the PAC's primary references, previous financial statement and Auditor General's Report failed to provide sufficient information for a more transparent and appropriate discussion in parliament. This has restricted the PAC's ability to scrutinise the government's spending behaviour. By having a more reflective and comprehensive information, they believe that accrual accounting will narrow the gap between public expectations and perceived

governmental performance, thus leading to the increase in public trust and confidence. As highlighted by CS,

“the credibility of the Government is enhanced, and the public will have greater confidence in the Government’s financial management ability...Transition to accrual accounting will also be seen as a positive effort to demonstrate to the public the commitment of the Government to continuously fulfil its responsibility in efficiently managing the country’s resources” (Hamsa, 2014).

Commenting on the importance to restore the public trust, one of the participants said *“Public really want it because, it’s fair to the producer, fair to the user, fair for general public to know in details what the government has spent the money on”* (PMA 1). Research also found that this expectation is similar to the benefit promoted by supra-international bodies including IMF and World Bank. Therefore, the ruling party needs to demonstrate their commitment to the efficiency logic, which emphasises the transparency principle.

However, some participants highlighted interesting point on the possibility of fulfilling transparency demand to contradict with other intentions. One of the PAC’s members argued that *“Transparency is much needed, but it won’t easy to implement...The current political masters will never want all these to be published”* (U8). From this statement, the participant indicates that the effort to pursue for more transparent information is in conflict with political desire. Regardless of this point, the government choose to adopt accrual accounting to demonstrate their compliance with public demand and to uphold the legitimate practice in modern public administration.

5.2.2.5 ‘Image Boost’

As the research progressed, it was revealed that apart from the four management principles that support efficiency logic, politicians and the top management of public administration highly expect the reform to contribute to their ‘image boost’ more so than it does as a faithful representation. This came as a surprise to the researcher as this intention is not explicitly mentioned in any policy paper, yet the result of the interview and the decision on the postponement supported this point. As illustrated in the following quotes:

“When they asked SG of Treasury about his expectation on accrual accounting initiative, he just replied that it’s useful to the country because we have a tremendous asset” (PMC 1).

“They (top management at central agency) really want to know how much asset they’ve in order to reflect a better financial position...Now, they couldn’t see that, because all of the transaction relating to asset is expense-off” (U2).

“The announcement on reform is only for publicity and public relation. Not more than that... They think on asset but not liability” (U8).

Since accrual accounting requires the government to disclose the information on assets, the research found that these two groups of users assume that they could display better financial position. The better financial position will consequently increase the public confidence on the credibility of the existing ruling party to manage the country.

By focusing on the assets to support “image boost” intention, research found that this group of users were overlooked on the effect of liability on their financial position. As highlighted by two participants from MoF,

“Probably the top management think that accrual accounting is only the tools to disclose the number of assets we have, at RM200b and typically function as keeping the account in a natural way. But they’re not aware that this RM200b is actually financed by its liability, and they’re going to incur additional debt to cover its maintenance” (U7).

“For me, they forgot about the debt at MoF as they’re focusing too much on their asset, therefore the politicians and top management have decided on the ‘big bang’ reform approach” (U3).

Both participants shared their concern on the misunderstanding amongst the politicians and the top management, of how accrual accounting information is supposed to function. Furthermore, one of the SGs suggested that *“We only have a few liabilities and some of it is recorded under the concession company” (PMC1)*. Since MoF recorded much of the government debt, the SG at organisational level seems to ignore the implication of liability on their organisation.

Although the information on government debt did not have a significant effect on the ministry’s financial position, it significantly triggers the

financial position of the government at consolidated level. The evidence suggests that the expectation on “image boost” has caused conflicting logics that complicate the reform process. As highlighted by some participants

“They didn’t realise the impact. If they can understand, they’ll definitely cancel this project (U8).

“I don’t think that the political master understand the kind of information that accrual accounting will produce” (U6).

From these statements, the politicians seems to underestimate the extent of liability that the government need to disclose under accrual accounting approach. Due to their misunderstanding, this intention has been used by the lead agencies to modify the reform strategy. The modification, however, has triggered pernicious problems that contradict with other expectations, especially in achieving greater transparency. This will be explained in later section.

5.3 IMPOSITION

Under this stage, the new logic and all the principles associated with accrual accounting were interpreted and translated into formal government policies. Adopting the top down approach, the implementation strategies and the new technique including system and regulations are developed by actors at the field before the execution by organisational actors. This indicates the government’s views that efficiency can be pursued by means of uniformed and centrally imposed rules. Thus, this stage mostly involves the actors from lead agencies. The new team known as Accrual Accounting Project Team (PPPA) were established at AGD to prepare the detailed plan and to ensure all the reform activities are successfully implemented at the whole level of federal government. In overseeing the progress at national level, the Prime Minister was appointed as a chairman of Public Finance Steering Committee, which holds the ultimate reporting authority in Accrual Accounting Governance Structure as shown in **Appendix I**.

5.3.1 New Discourse

The discourse on accrual accounting and efficiency logic in the MPS began after the announcement by the Prime Minister in December 2010. Shortly after that announcement, a group of PFM experts including academicians,

consultants, officials from MoF and representative from Malaysia Institute of Accountant (MIA) joined the brainstorming and technical discussions in Strategic Reform Initiative (SRI) lab. In preparing the overall implementation strategies and detailed timeline, they discussed the essential condition for changes in accounting practices, ensuring it was aligned with other initiatives under Public Finance Reform (PFR). Reflecting on the complexities that they faced during that time, the former top management of AGD shared that, *“It’s not an easy task as we need to gather all of our thoughts and think on how to approach this project within a short period”* (PC2). At the end of that lab, the participant proposed the comprehensive reform strategy covering four main areas to PEMANDU for final approval. This covers: Enhancement of Act and Regulation, Development of Standard and Policies, Data Management and Information Technology, Human Resources Management. A brief overview of activity in every reform strategy is summarised in **Appendix J**.

Subsequently, on 3 May 2011, the Prime Minister made an official announcement on the full adoption of accrual accounting by all public organisations at the federal level starting from 1 January 2015. According to this plan, the accrual accounting information will support the application of OBB after two years of its full implementation, which will be in 2017. On this, the Accountant General’ emphasised, *“We’ve identified that accrual accounting is needed for us to measure fully the outcomes of the budget at national level”* (PC1). The Accountant General’ also highlighted that the source of power of accrual accounting is on its relationship with OBB for better macro-fiscal management. Indeed, this is consistent with the ideal promoted in efficiency logic practiced by early reformers.

After the approval of the implementation plan, the government issued the Treasury Circular No. 4/2013 on 28 March 2013. Regardless of the differences in structure, size and nature of the organisation, the circular instructed all twenty-four federal ministries to implement the whole reform activities in less than four years from its formal announcement. To ensure the changes occur within stipulated time, every ministry needs to establish a formal governance structure known as Accrual Accounting Implementation Committee (AAIC). Moreover, SG for every ministry is appointed as Change Champions who will lead the ‘Change Agent Network’ and the project becomes one of their KPI. As highlighted by the KSN in his speech,

“SGs are the ‘Change Champions’ in this initiative, setting direction and influencing important stakeholders to provide support and commitment to effect change at each respective ministry. I expect the SGs to actively participate in this exercise and “walk the talk” ” (Hamsa, 2014).

This corresponds with accountability principles and the announcement made by PAC Chairperson which includes *“Under the system, the SG will have to sign-off their respective ministry’s accounts and will not be able to say that they are not aware of disparities”* (New Straits Times, 2014). Moreover, every SG has been given a training and control mechanism to monitor the progress on changes, including the periodical report indicating the status of each activity for every quarter. Can all the strategies be implemented according to its plan? The answer will be revealed in the rest of this research.

5.3.2 New Technique

Based on the radical implementation plan and top-down approach, the AGD was supposed to make available the three main outputs embodying the new efficiency logic before 31 December 2014. Firstly, the new accounting policies and regulations, secondly the new centralised accounting system and thirdly the new chart of accounts. These three outputs are interrelated and vital to ensure that the new efficiency logic was disseminated and implemented at the ministries accordingly. It was also meant as monitoring and controlling tools to ensure standardised practices and uniformed reporting format among the ministries. This is believed to enhance consolidation process and to enable comparability, both with the report of previous periods, and with other ministries. The following paragraph will elaborate on this.

5.3.2.1 New Accounting Policies and Regulations

As a primary reference and to govern the accrual accounting application process, the government has decided that the new accounting policies and regulations will be prepared based on IPSAS with some adaptations to meet local law and regulations. The review on the minutes of internal discussion shows that the new accounting rules, are specified in four main forms; Accounting Policy, a set of standards which is known as Malaysian Public Sector Accounting Standard (MPSAS), Federal Government Accrual Accounting Manual (FGAAM) and Accrual Accounting Implementation Guideline. Regarding this, one of the

participants involved in formulating process of MPSAS highlighted, *“Sometimes standard has no examples, very technical and wordy. So when you read, you sometimes couldn’t understand what they are talking about”* (PC4). Due to this limitation, the government decided to produce another three main references to enhance the understanding among the reform actors.

From the review on all the different forms of regulation, research found that the content of the document differs particularly on the level of details. MPSAS sets out overall requirement on presentation of financial statements, a brief guideline on recognition, and valuation and measurement of accounting transactions. Since IPSAS leave open to the government the choices of some recognition and valuation approaches, the Accounting Policy prescribes options most suitable for the needs of Malaysian government. In supporting MPSAS and Accounting Policy, the FGAAM provides more detailed explanation on every accounting treatment together with a journal entry; while the Implementation Guideline prescribe detailed instructions including depreciation rate and threshold value for asset capitalisation in three different categories: property, plant and equipment, inventory and account receivable. Hence, as a set of basic principles, all of the documents should be interpreted together by the reform actors, in preparation of the new accounting practices at their organisations.

In doing this, the Government Accounting Standards Advisory Committee (GASAC) was established in 2011 to review and propose a new accounting standards. This committee is chaired by Deputy Accountant General’s (Operational) and participated by nineteen appointed members with different background; the representatives of professional accounting bodies, NAD and academicians. Besides the involvement of AGD and GASAC, the formulation of the new accounting standards also involve Accrual Accounting Steering Committee (AASC) and IFAC for final approval. **Figure 10** summarises the whole process in formulating the new accounting standards.

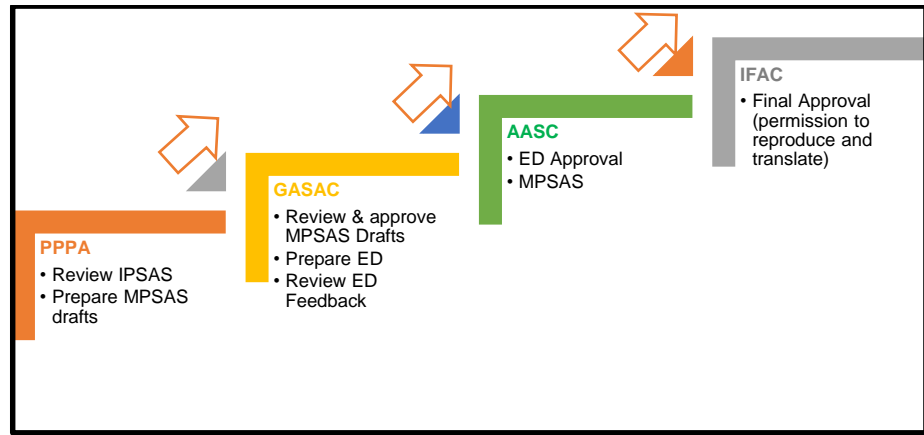


Figure 10: Development Process for MPSAS

From the total of 38 standards issued by IPSAS, the Malaysian government has only decided to adopt 36 standards to date. The first set of standards was published by AGD on March 2013 with 7 standards and this number kept increasing until it reaches 33 standards by December 2016. The list of standards issued is in **Appendix K**. Regarding the selection of IPSAS, one of the members of GASAC explained, “*The selection of which standard to adopt will depend on the needs of and suitability in the MPS context*” (U1). For instance, GASAC decided not to adopt IPSAS 10, which deals with hyperinflation, as Malaysia is not in a situation of hyperinflation yet. Adding to this point, another participant involved in this process noted, “*All IPSASs classified as important have been prioritised to be reviewed and approved by GASAC*” (PC4). Since all public organisations need the specific regulation on assets as their guidance in data collection process, therefore, all the MPSAS governing the assets are among the first set of standards issued by the government

Although the process of formulating the new accounting regulations appears purely technical, in Malaysian case, it involves many conflicts between professional judgement and political consideration. The review of internal documents and interviews with participants involved in this process revealed interesting stories. The documents revealed that the compliance of the IPSAS adoption within the period of transition of 3 years (2016 to 2018) was grounded on the aim “*to account for as many high values assets as possible.*” Meanwhile, based on the minutes of meeting of GASAC No. 3/2015 on 22 April 2015, the committee has

proposed the deferment in adoption of the three IPSAS related to liabilities; namely MPSAS 13 (Leases), MPSAS 25 (Employee Benefits) and MPSAS 32 (Service Concession Agreement: Grantor). Explaining the reason of the deferment, one of the participants admits that this decision is to fulfil the request from the top management at MoF. The participant claimed that,

“...the SG of Treasury wants us to come out with a better figure first. Only then only we can proceed with accrual accounting by bringing the public bills for the amendment of Financial Procedures Act” (PC9).

A closer investigation of this deferment found that full compliance will result in the increase of the government debt in total; thus exceeding the ‘self-imposed fiscal rules on public debt’⁴⁹. Although the top stakeholder expected this ratio to maintain below 55% in any circumstances, surprisingly, the total debt presented to them in 2014 is higher than 55%. Regarding this, one of the participant commented,

“Fiscal decision is more on debt management, and accrual accounting is to let you know the future commitment, for liabilities...Debt in accrual accounting is not only limited to borrowing arrangement, it should include PPP and pension obligation as future liability. And now we have all the figures but you try to avoid this.” (PC7).

This participant’s statement implies that the current decision contradicts with accrual accounting principle and the government’s initial intention of having a comprehensive disclosure. Furthermore, by comparing the disparity in the treatment of assets and liability, the research found that this supports the ‘window dressing’, which contradicts the transparency and accuracy principles. To avoid confusion among the public and violation to the rules of public debt, however, the government decides to defer the MPSAS’ full compliance.

As a result, many reform actors questioned the deferment. Despite these three standards being approved for the full adoption by AASC at an earlier stage, towards the end of reform process, the GASAC suddenly proposed for the deferment. The consultant, in disagreeing with the

⁴⁹ Since 1959, the Malaysian government has started to apply the self-imposed fiscal rule on debt in managing the fiscal economy. This rule is to ensure the total amount of federal government domestic debt as a percentage of GDP, shall not exceed 55% at all time (IMF, 2015).

decision, argued *“There is no way you can defer adoption because it’s already in MPSAS”* (CC 1). However, another participant involved in the GASAC meeting claimed that, *“We can, as we’re the one who prepares that MPSAS”* (PC4). This scenario suggests that the formulation process of accounting standards is not neutral as it was strongly influenced by the political power. Consequently, this affects the actual government’s financial position and contradicts with the principles promoted in efficiency logic.

Apart from that, the data revealed that the process of formulation of the new accounting policy and regulation faced several limitations. Some participants suggested that it received low response from the audience and minimal participation from the experts. The following quotes illustrates this suggestion:

“When we issued an ED, the responses received are not very encouraging (PC 4).

“This is probably due to the lack of understanding on the actual implications on public sector environment as most members are relatively new to the reform initiatives” (PC 5)

“Unfortunately, what I can say is, the members of GASAC may not even understand accrual accounting to make the relevant decision...they’re just making decision on behalf” (CC2).

The review on the minutes of meetings supports the above findings. Neither detailed technical discussions among the members nor opinions were drawn from subject matter experts (i.e. quantity surveyors, historians and CA (CA) specialised according to sectors). Given the unique nature of the public organisations and the minimal participation from them, this has restricted the government’s effort in preparing some adaptation to ensure it is aligned with the existing work practice and multiple user requirements. As highlighted by one of GASAC’s members, *“For us, they’re taking an easy way out...We just take IPSAS and hardly do the changes”* (PC 1). Since IPSASs were prepared according to business-rules and early reformers’ experiences that received an intense debate on its application internationally, there is a possibility that the full compliance with IPSAS requirement will

complicate the transition process unnecessarily. This will be explored in Chapter 6.

5.3.2.2 New Accounting Systems

Based on the reform' plan, the government believes that the existing function of accounting information system needs to be changed to cater to a new accounting workflow. To accelerate the transformation process, the existing function will be enhanced to become highly-integrated, centralised and harmonised with other government's computerised system. In doing this, the AGDs have taken this opportunity to merge the function of two major government accounting and reporting systems, GFMAS (which is currently used at Accounting Office) and eSPKB (which is currently used at RC) into one new system, 1GFMAS. Moreover, the system will have the ability to process the 'dual ledger-function'⁵⁰ and integrate with at least another 70 government computerised systems including MyResults (budgeting system) and ePerolehan (procurement system). With increasing number of users of at least 50,000 all over Malaysia, the existing applications software of GFMAS will be upgraded. All of the necessary work on the new system should be completed by April 2014 before it could 'Go Live' by 1 January 2015.

Given the various requirement and to ensure the data produced are reliable and secured, the government has invested abundantly on this new system. Research found that for this purpose, the IT Division in AGD, with the support from software consultant and the SI since 2012, have devoted their effort in developing this system. The evidence, however, reveals that the AGD faced many technical hitches throughout this process. According to officials who managed this process,

"There were many problems that contributed to the delay in system development especially difficulties in finding an IT expert for SAPs application in Malaysian market. So, SI has to find them internationally, but this created language barrier to our team, to communicate effectively with them...This is probably to minimise their cost...Moreover, the requirement on the special portal needs some modification on SAP

⁵⁰ The dual-ledger function is refers to the processing of the accounting information in two formats of reporting, accrual-based and modified-cash at the same time.

standard application... Most importantly, within time constraint, the accounting standard and manual need to be prepared concurrently with system development” (PC5).

From this statement, the participant shared the main challenges ranging from lack of in-house IT technical expert to cater to various technical specification including the usage of the same portal as applied in the previous accounting system. In order to avoid the long learning curve among its users, a major amendment to the standardised SAP application is required. Arguing on the importance of this feature, one of the participants reiterated, *“We try to minimise the changes on the look and the field on the screen...If not, imagine that we have to train 15,000 users at RC who have to look at everything new” (PC1).* In contrast, another participant argued, *“This is against our original approach, we want to minimise the customisation. Since this is a new system, the user could easily adapt to the changes if the new function is user friendly (PC 5).* Consequently, this issue complicates the development process because it requires a costly and time-consuming preparation. After several changes in deliverable approach and the timeline, the research found that the new system is yet to be ready and the progress is still far behind the schedule. As of now, the 1GFMAS is considered as one of the critical uncompleted projects and the date for ‘Go Live’ for 1GFMAS was rescheduled from 1 January 2015 to 1 January 2017.

Predictably, the slow progress of the new system development has created many problems for the organisational actors. Initially, majority of reform actors have a higher expectation on the capability of 1GFMAS. As highlighted by one participant, *“Everybody is so excited about 1GFMAS. If we fail to develop the new system, we will fail in this reform” (PMA 2).* Towards the end of the original reform period, many participants voiced their concern on the poor development progress. For example, a participant commented, *“We’re unclear about our role and the overall workflow of the reform. The training couldn’t adequately prepare us as the system is not fully developed” (PMA 11).* Similarly, one of the SGs emphasised, *“There was no point gaining all the data if the new system is dysfunctional. Such a waste, because we’ve invested so much on this system” (PMA 1).* From this scenario, the research found that the new accounting system has a key role in gaining the

interest on the reform among the actors. Unfortunately, rather than accelerate, the slow progress on the development of 1GFMAS has decelerated the reform progress as it adversely affects the actor's belief and interest on accounting reform.

5.3.2.3 New Chart of Accounts

Apart from the new accounting standard and the new accounting system, a new chart of accounts is needed to enable the changes in disclosure requirement. As emphasised by the former Accountant Generals, *"The new chart of accounts and the account code is important to enhance the process of recording the transaction and to standardise the report among ministries in accrual accounting format"*. In doing this, the minutes of meeting proves that several discussions ensued, including with key users from EPU and MoF before they could finalise the list. The identification on their specific needs on the content of the new financial report is important to ensure the document is relevant in future decision making processes. On top of that, the accountant involved in this process claimed that all disclosure requirement prescribed in the policy, MPSASs and 1GFMAS had been reviewed before the new set of chart of account was issued by AGD in early 2015.

The review of the document shows that the new chart of account contains specific charge code for every transaction including its definition and classification. Responding to the content of this document, one of the participants commented;

"It involves many new accounting terminologies with detailed category. Hence, the user really needs to understand and differentiate according to the nature of the transaction to ensure they could generate the accurate financial information"(U2).

Since the MPS relies on the participation of accounting personnel at different level and even non-accounting personnel in performing the accounting function, many actors started to express their scepticism on the capacity to understand and apply the content of this document. For example, one of the participants says *"It has many new terminologies, the users may require some time to be able to apply it accordingly"* (PC 1). Unfortunately, the interview with organisational actors particularly from RC revealed that many of them are still unaware of the issuance of

this document. For example, one of the Chief Clerks in one of the ministries replied *“Actually, I don’t know about the existence of a new accounting code”* (PMA 12). Another participant from a different ministry responded, *“Ohh, I never heard about this document (PMC 9)”*. Given this scenario, the applications of the new chart of account appear to be challenging. Ironically, though, this will determine the quality of the financial data for the entire government.

5.4 SUMMARY

From this process, the research found that the lack of comprehensive information resulting in the weaknesses of prior PFM practices is the root cause for the reform actors’ primary concern. The efficiency logic that prioritise the principles of effectiveness, accountability, accuracy and transparency based on accrual accounting information as implemented by private sectors managerialist and many developed countries, has provided a form of legitimations in the MPS and justification for reform as claimed by the politicians. Hence, in principle, the potential user’s expectation was consistent with the efficiency logic except for ‘image boost’ position. This allowed the research to reveal two important insights: the existence of a strong field-level consensus about the appropriateness of accrual accounting to achieve efficiency logic, and the conflicting prescriptions about how to meet all these expectations when the ‘image boost’ intention suddenly exists. At this stage, there is a contradiction between ‘image boost’ expectation and transparency demand, with both being influenced by political sentiments. There is also the possibility of incompatibility between efficiency logic prescriptions on accountability with the inherent nature of public sector organisations.

Furthermore, the data discovered that many actors are only concerned with AGD’s ability to timely deliver the new accounting system while the other two critical new techniques have some limitations. Given that social welfare logic has been in use for more than three decades, the limited time to transform them and the existence of contradicting multiple logics have complicated the initial process. An appropriate application of the new techniques require a certain level of understanding and interest that are consistent with the underlying logics. This accentuates the importance of examining the organisational actors’ responses to institutional complication. Whether efficiency logic could gain dominance over social welfare logic or the new logic would emerge as a synthesis of the two, and this will be revealed in the next chapter.

CHAPTER 6

THE INTERNALISATION AND OUTCOME OF THE CHANGES

6.1 INTERNALISATION

Prior to the internalisation process, the field level actors have articulated an implementation plan and a new accounting technique as expounded in Chapter 5. This chapter will reveal the internalisation of new accounting practices at the organisational level as a further step in the progression towards efficiency logic in the MPS. Given that the reform involves twenty-four federal organisations, the three organisations chosen provided great opportunities for a detailed investigation on how the organisations manage and respond to the changes process. Regarding this, the top management of AGD commented that, *“Many things have been prepared at central level, the system, the template, the training and regulation. But to be operational, this totally depends on individual themselves and the peculiarity of the ministry” (PC2)*. Hence, the main characteristics of these three organisations are summarised in **Table 5**, to provide the overview of the context within which a new set of accounting practices was internalised.

The remainder of this chapter is divided into three sections. The following section will dissect how each organisation internalises the accrual accounting approach and efficiency logic in two major reform activities within the period of 2013 till 2015. First, the organisations need to conduct the change management programme to ensure the actors are capable of performing the new accounting practice. Secondly, they need to establish opening balance for asset and liabilities through data collection activities. As this is the first time the individual organisation is required to publish their own financial statement, the monetary valuation will be assigned to a broad range of government-controlled resources that are mostly consist of non-financial characters. Subsequent section presents the immediate outcome of this process that indicates the extent to which efficiency logic is being institutionalised and enacted within the organisation. The final section summarises the overall findings of the research.

| Cases | Ministry A | Ministry B | Ministry C |
|--|---|--|--|
| Number of Interviews | 13 | 12 | 10 |
| Sector | Construction | Tourism and Culture | Transportation |
| Core Activity | <ul style="list-style-type: none"> • Manage the development of federal road networks nationwide. • Monitor the implementation of infrastructural development projects for all federal ministries. • Act as an advisor and support service to professional development of the country's construction industry and skilled workforce | <ul style="list-style-type: none"> • Manage the tourism, art and culture through license issuance and promotion activities • Conserve and preserve the national arts, culture, heritage, parks and recreation. • Manage national collection of library resources and public records | <ul style="list-style-type: none"> • Ensure national transport system, i.e. road, maritime, rail, ports and civil aviation transport are efficient, sustainable, integrated, secure and user-friendly |
| Founding year | 1956 | 1987 | 1956 |
| Number of Responsibility Centre (RC) & Agencies | 80 RC 6 agencies (1 Department with branches at every fourteen states, 1 Board, 4 institutions) | 49 RC 12 agencies (3 Departments including 1 department with 34 overseas offices and 11 local marketing representative office, 5 agencies, 2 Boards, 1 corporation, 1 academy) | 72 RC 12 agencies (4 Departments with branches at every fourteen states, 5 port authorities, 2 institutes, 1 corporation body) |
| Number of employee (2016) | 12,171 | 3,190 | 12,841 |
| Total Budget Received in 2016 | MYR 5,775,907,700 | MYR 1,221,005,900 | MYR 3,954,703,300 |

Table 5: Summary of Organisational Attributes

6.1.1 Ministry A (MinA)

a) Adoption Process

As the pioneer of SAD in the federal government, the organisation started the reform process by performing change management activities in early 2013. These activities were led by the Account Division. According to the Chief Accountant (CA), besides training, they also distributed the brochures among its organisational actors to promote accrual accounting initiatives. From time to time, they organised discussion sessions with smaller group of actors to enhance their understanding on the application of specific accounting standard especially infrastructure asset. From the interviews, research found that these sessions, however, were inept in improving the level of understanding and perception on new practices among reform actors. As pointed out by the CA,

“Change management is the hardest part. It’s not an easy task to change their view and acceptance... Especially for those who have served for long time in the government as they’re already comfortable with the current practices. It’s stressful for them to suddenly change into a new routine” (PMA 2).

From this statement, the CA suggested that the difficulties in gaining the acceptance on new logics are influenced by the actor’s length of services with the government. Due to a strong embeddedness with previous practice, the longer the actors serve as civil servants, the harder they could accept the logics associated with accrual accounting.

Meanwhile, others felt that this problem is mostly applicable to non-accounting personnel. For example, the auditor highlighted:

“Most officers at RC didn’t have any background in accounting. So, even when we give all the training, there’s always a limitation as they couldn’t understand the technical application of accrual accounting. And this is our biggest problem” (PMA 4).

The participant argued that this group of actors with different academic backgrounds and practical experiences have limited ability in understanding the detailed application of accrual accounting. Moreover, as one of the two technical ministries in the FGoM, MinA’s structure is dominated by three mainstream of professional technical specialist i.e. engineer, architect and

quantity surveyor. The actors from different professional schemes have specialised tasks and well-established standards, which are aligned with the purpose of their organisation. However, most of the management tasks in Min A are prepared by a group of technical specialists and general clerks. As their level of understanding on accounting norms and regulations is very limited, this has affected their interest and value on the reform process that will be explained later.

After change management activities, the organisation initiated data collection process for all its assets and liabilities in December 2013. During this process, the CA divided all the accounting personnel available in the ministry into four teams. Each team was responsible for collecting the data for one category of asset as listed in **Appendix L**, which is either immovable assets, moveable assets, Assets Under-Construction (AUC) or account receivable. On the liabilities, the data were collected solely by the Account Division. This activity covered the lowest level of its RC in six agencies up to the departments and divisions before being consolidated at the ministerial level. In synchronising the whole process, they discussed at the Working Group Meeting before updating their progress to SG in the quarterly-based AAIC's Meeting.

From that process, this research found that the organisation faced various difficulties especially in valuing the road and recording a large volume of moveable assets. With regard to roads, evidence indicates that the difficulty is caused by the subjectivity in estimating the value of roads that have a long history of construction process. According to the Malaysia Road Statistic prepared by the Road Facilities Maintenance Branch, there were 965 roads owned by the federal governments. It covers seven different types of road⁵¹, in which many of them were developed in the 1980s and 1990s and some were constructed during the British colonial period 56 years ago. Hence, the accountant in-charge highlighted that it seems impossible to identify the actual cost for this type of road as no payment voucher or invoice could substantiate that transaction, except for road developed by concession companies. Therefore, the value for majority of these roads could only be determined by estimation.

⁵¹ This covers: federal highway, tolls highway (developed by twenty-six concession companies), the entrance road to FELDA, the entrance road to Lembaga Kemajuan Wilayah, access road to a federal learning institution, road at the industrial area, road located in three Federal Territories (Wilayah Persekutuan Kuala Lumpur, Putrajaya, and Labuan)

The requirement on the estimation presented the organisation with another level of complication. They had to deal with many factors that are quite subjective, while the existing policy and accounting standards on the roads valuation are still ambiguous. Describing their complication to resolve this issue, the CA shared,

“Initially, we just multiplied the length of the road with the standard cost for flat road given by the headquarters of Department A (DeptA) without any technical explanation. Unfortunately, we can’t, we have to consider many technical issues related to it, which MPSAS 17 didn’t cater for”.

After applying the valuation rules as prescribed in MPSAS 17 (Property, Plant and Equipment), the Account Division received negative feedback from roads’ technical expert. They started noticing many technical issues such as the variation in physical nature of the road and whether the construction costs of a road at a different time in a different location should be valued similarly. In replying to the concern of the MinA, the accountant involved in the formulation of the new accounting regulations at the AGD highlighted:

“This valuation method is rather inappropriate since it strictly emulate other countries’ experiences. Different countries apply different formulae. They may use different materials for the road. For instance, what is applicable in the UK might not be applicable in Malaysia because of the weather difference. The UK has four seasons in a year. Also, their road is made of cement, ours use bitumen” (PC4).

From this statement, the participant focused on technical variability in road valuation’s formula. Hence, accounting personnel have to rely on the assistance from the group of technical specialists to provide a better solution for road’s valuation.

Unfortunately, research found that the top management and group of technical specialists hardly cooperate especially during the early reform stage. According to one of the accountants,

“Nobody wants to help us as most of them believe that the accounting work is meant for accounting personnel and should not involve them... They couldn’t see the benefit behind this process as the government still needs to maintain the road regardless at any cost” (PMA 2).

Furthermore, the large organisation structure has made their transition trickier because they have difficulties in identifying the person-in-charge. As highlighted by another accountant,

“Different from our previous approach dealing with only our field, the initial process of data collection has taken a very long time as we’ve to find the right person in-charge on road construction...We’ve too many Divisions. Moreover, the engineers and quantity surveyors keep pointing at each other” (PMA 3).

In these two statements, the non-accounting personnel showed their reluctance to participate in the reform activities due to disbelief and disinterest in the new accounting approach. Despite having the technical expertise, when the Accounts Division requested for the estimation value on federal road, rather than assisting, the technical expert asked the appointed concession company to furnish such information without any explanation.

Unsatisfied with this treatment, the Account Division tried to bring this issue to the field level. Additionally, they have organised several discussions with top managements, technical groups and the consultant. Surprisingly, the new top management and internal technical team started showing their support. For instance,

“One of senior engineers from DeptA who is an expert on road infrastructure suddenly tried to understand the accrual accounting requirement as stated in MPSAS 17. He was even willing to lead the technical team in finding the most reasonable standard cost for different types of Federals road and comparing the two requirement(PMA 3).

This event has successfully encouraged another group of engineers and quantity surveyors including Geotechnical Unit to find a better solution for road valuation. After a long series of discussion, at the end of 2014, DeptA finally proposed a detailed technical estimation based on new ‘standard rate’⁵² for three different designs of road; flat, rolling or mountainous. As the estimation value for the road is substantive, the consultant and the technical road expert argued intensely before the AGD finally agreed to accept this proposal. Lastly,

⁵² In deriving the standard rate, the technical expert had to consider many technical aspects including: whether it is primary road or secondary road, the location of the quarry, geographical condition and the particular component (which is bound layer, unbound layer, earthwork and drainage) used in the process of construction.

they agreed to use that new valuation approach but state' engineers need to ascertain the type of design for every road under their supervision.

However, that decision changed in early 2015 due to the consultant's different opinions. According to the accountant-in-charge, *"the consultant suddenly wanted a different method of calculation"* (PMA 3). Thus, another approach was proposed, which was based on the expenses reported for construction of the road in financial statement. Yet, the team from Accounts Division had to trace this information from the past financial statements since 1946 till 2014. According to the accountant who led this team, *"The process is really tedious as it involves many sets of financial statement with a different reporting format"* (PMA 3). After two months, finally they managed to identify the construction cost for 19,485.16 kilometres of Federal Road. From this process, the research found that rather than a simple explanation as stated in the MPSAS 17, it requires detailed consideration and yet, the new government policy was silent on the three different values identified for the same assets. First, the market value of the road is based on one standard rate. Secondly, the market value is based on the technical rate for three different types of the road and thirdly, the historical cost of the road as recorded in previous financial statements. Since this decision affects the government policy with substantive figures that may affect the government's financial position, this requires the approvals from the top management of MinA, the DG of DeptA from Malaysian Borneo⁵³ and lead agencies.

Besides complication in valuation, MinA faced difficulties in determining the useful life for the road for the calculation of depreciation charges. Its useful life as stated in the FGAAM is between ten to fifty years while the consultant suggested seven years. Some technical specialists argued that it may last for only four years while majority of them argued that this accounting concept is totally irrelevant. As commented by one engineer *"This is nonsense, we've so many roads. The responsibility to maintain the road is for social needs, particularly road safety, regardless of any cost or any useful life determined for it"* (PMA 10). Moreover, the technical specialists have their own guideline on whether the road needs any maintenance, which may prolong its useful life. For them, this involves many factors including the level of usage, the

⁵³ The Malaysia Borneo is also known as East Malaysia and it includes three different states which are Sabah, Sarawak and Labuan. The land is separated from Peninsular Malaysia by the South China Sea. DeptA branches in these states are controlled directly by the State and their rules are different from Peninsular Malaysia.

enforcement, the geographical area and the length of the road. All these factors are quite subjective and yet, the application of depreciation concept is relatively objective, contradicting with the nature of MinA's operation. The preparation and consideration of these factors were found to be time consuming and thus, were viewed by some as burdensome obligations.

Apart from road, MinA also faced difficulties in gaining the information on moveable assets. Earlier, the AGD decided that all the items valued at RM2,000 will be classified as moveable asset and the process of data collection for this asset should be based on the data available in the computerised system, which is Sistem Pengurusan Aset (SPA). Although the interview with few accountants at Accounts Division did not indicate any problems, the interview with Asset Manager and Auditor at selected RC revealed different stories. The evidence pointed that there was a minimal usage of the SPA among majority of its RC and mismanagement in previous practice, which complicated the reform process. As illustrated by the following quotes:

"We've huge moveable asset and 79 RCs. The numbers are increasing because of the lower threshold value for moveable asset as decided by AGD. From this number, many RC haven't keyed-in their data on moveable asset. Therefore we're among the bottom five in AGD's overall report" (PMA 2).

"Big problem. Previously, we've 43 RC and now it becomes 44... our number of branches keep changing...At this stage, out of 43 only 12 RCs recorded their moveable asset in SPA... So, these 31 RCs are new to SPA and they've just started to key-in the data end of last year...Moreover, the person responsible to key-in the asset's record keeps changing...Once they change to different department, we need to appoint a different person and train them".

From these statements, the participants highlighted a few issues including the lower threshold value, fluctuation in the number of RC, high staff turnover and unfamiliarity with the SPA's function. These made the recording process of all previous transactions time-consuming. Responding to this situation, one of the accountants suggested, *"We've to make sure that all RCs are starting to use the system before we could utilise its data ...So, all we need to do is just to provide a special course to key-in the data"* (PMA 5). Thus, the research found that rather than gaining the reliable data for moveable assets, the accountant in-charge only focused on SPA's usage. Moreover, the feedback received from asset officer indicated that, neither the explanation on the actual

requirement of accrual accounting nor verification on the accuracy of the data was provided by that accountant. As the asset officer had very limited time for this process and limited knowledge on accrual accounting, consequently, they just key in the data without considering the accuracy of the information. This finding points to a lack of collaboration between asset manager and accountant in sharing the necessary information in managing the data collection process.

Apart from that, some participants highlighted the difficulty in gaining the data due to the mismanagement in previous work practice. According to one participant,

“...there were so many wrongdoings! We’ve just moved into this building together with another 5 branches in the last six months...There’re items that dispose-off through gift, burnt or just thrown away...Even some of our assets were sell-off to the contractor by our staff, they take that money and just remain silent as they’ve never registered this in the system...Additionally, we didn’t record all the asset purchased under the maintenance fund as they didn’t have proper allocation to procure a new asset previously.” (PMA 11).

This statement revealed that the poor record keeping for a large number of moveable assets are due to dishonesty of some asset officers. This is indeed among the common mistakes that occur in many federal organisation as highlighted in the Auditor’s Report. Hence, for reform purposes, some of these transactions were recorded as an asset without being supported by any documentation to avoid any serious offenses. Therefore, the asset manager was quite sceptical of the accuracy of this data.

After data collection, all of this information was forwarded to Internal Auditor for verification purposes. According to the auditor in-charge,

“We’ve prepared verification based on AGD’s instruction and checklist prepared by consultant. We’re just second-level defence, the Accounts Divisions should ensure the accuracy of these data before submitting to us” (PMA 4).

In contrast, one of the accountants in the Account Division argued,

“Currently, we can only rely on the work of asset manager as we’re not given any direct access to the SPA. So, we also didn’t do any verification. The auditor should do this” (PMA 5).

The asset manager, meanwhile, said,

“It’s impossible for me to verify a large number of moveable asset as this is not my primary role in that department” (PMA 8).

The argument above implied that none of them are really concerned of the accuracy, validity and reliability of the data recorded on moveable assets. The other evidence also showed that there was no attempt for rectification either from RC or Account Division on the irregularities highlighted in the audit report, leaving the accuracy of the data gained for this ministry highly questionable. This scenario reflects the working in silos between the different groups of actors that merit the practices in previous logics.

Overall, MinA demonstrates the avoidance strategy in facing many complications in the reform process. The new accounting practices did not provide any significant changes to the reform actors as they try to avoid the responsibility to actually perform the new activities. Moreover, the evidence shows it is difficult for them to prioritise the efficiency logic in their new work practice, due to multiple goals emphasised by the organisation. As commented by SG,

“In managing the public fund and various assets in this ministry, we’ve multiple objectives including safety and socio-economics expansions. It’s not like a private company where your objective is just on the bottom line, profitability” (PMA 1).

Furthermore, the explanation given by organisational actors has led this research to examine how organisational attributes and the intra-organisational dynamics (interest, value for commitment, dependencies on the power held by top management and the capacity for action) influence the individual behaviour in performing the reform activity. This will be explained in the following paragraph.

b) Intra-Organisational Dynamics

6.1.1.1 Interest

Although the Accounts Division tries to promote the common interest on the potential benefits of accrual accounting through training and awareness sessions, the evidence shows that there was a diverging range of interest on accrual accounting among the organisational actors. Some actors favour accrual accounting by expressing their dissatisfaction on the limitation of modified-cash approach while others prefer the existing accounting approach. As illustrated by the following quotes:

“From my experience, previous budgeting practice didn’t utilise accounting information, it’s very limited. MoF just approve any amount as this is not their expertise... They’re just a dormant user. So, when the non-expert determines our budget, they didn’t approve according to our actual needs...we can only get a small allocation for a maintenance cost. With the asset’s information reported in accrual accounting report, we can justify why we need more allocation for maintenance” (PMA 2).

“I used to manage the potential PPP or PFI project. We often have this problem, "dichotomy in financial system". On the operational site we’ve Operating Expenditure and on the development we have Development Expenditure. We didn’t have one reporting system that integrates these two. Hence, when we want to decide whether to build the asset or rent the space, we only think about the money to build that building without thinking about its maintenance cost in the next 15 or 20 years. Consequently, we made the wrong decision” (PMA 1).

“We must begin somewhere. Our previous role is so annoying, which was restricted to book-keeping and single entry...We’re going to have comprehensive information but most of the financial decision making are made by ADS⁵⁴. We’re the one who have the knowledge and experience in financial operation, so we know exactly where is the loophole... With this reform, I believe that AGD could grab this opportunity to expand our role and take over the functions of Treasury” (PMA3).

⁵⁴ Administrative and Diplomatic Officers (ADO) refers to the officials from main schemes that assist the MPS in planning and implementing national policies. To become an ADO, the person should possess at least a basic degree from any field. As the core of the country’s civil service, ADO fill most of the key positions in many ministries and departments. Hence, majority of the official in Treasury involved in the PFM including budgeting, taxation, and fiscal policy making is from ADO scheme.

Dissatisfied with limited features of modified-cash basis that previously constrained the usage of financial information, in these statements, the three participants recognised the connection between the new template and financial decision-making process. Without comprehensive information, the decision maker is unable to see which expenses or investment could give more value for money. Moreover, this could be improved by expanding the roles of accounting personnel from a 'bean counter' to a more active participant in decision-making process as highlighted by one participant. Hence, with the adoption of NPM practices they believe that the new accounting template will provide better solution for more efficient financial decision-making in the future.

In contrast, some participants especially non-accounting personnel are totally not interested with accrual accounting initiative. As illustrated by following quotes:

"Our former SG mentioned that, "I've many other things to do but absolutely not in balancing. So, I don't care about this reform" (PMA 2).

"Some (engineers) say 'we don't care about accrual accounting project, whether it progresses or not it didn't affect us" (PMA 3).

"It's not that we didn't have sufficient information but that information is scattered. If the person who prepares the budget didn't capture all this information or the budgeting officer at MoF didn't change their approach, all the decision will still be inaccurate. Honestly, I didn't see the point why they want to change the accounting format. Probably I'm still unfamiliar with that concept but I believe most of us here feel the same...I need deeper explanation on the effect to our workflow (PMA 7).

"For me, the complication occurs when most asset officers are uninterested on accrual accounting and their responsibility on asset management, they just consider a burden...They need more awareness on the linkages between asset management and accrual accounting needs. Therefore, some officers still try to avoid the recording process" (PMA 10).

Without clear understanding on the connection between accrual accounting and other management practices including asset

management, some actors presumed that the new workflow is disadvantageous to their interest. The data also suggests that although the non-accounting personnel plays an important role as a gatekeeper to accounting information, none of the training sessions catered to their specific needs. One of them even argued that rather than changing the reporting format, the government should enhance the ability to utilise the relevant information among the decision makers. Therefore, they could not accept the theorisation on accrual accounting and still strongly prefer previous logic, thus, complicating the transition process.

Apart from that, some participants are more interested in the possibility of improving the weaknesses of existing accounting system and asset management system through this reform initiative. According to one participant,

“All this while, we’ve many stand-alone systems...we need to maintain many systems and generate many reports to cater for different purposes, GFMAS, eSPKB, SPA, mySPATA, etc. With this change, we’ll use one new system which is highly integrated with other systems... we could reduce the redundancy in our work in asset management” (PMA 8).

This view was supported by another participant;

“I do hope the new accounting system works for us. There’s no point in doing the reform if we can’t use and access the information at any time that we want” (PMA 1).

From these statements, both participants are concerned with the difficulty in accessing the required information when there were multiple computerised database systems available in the MPS. This has also caused the duplication of work in some circumstances. Hence, they are hoping that the accounting reform could overcome these problems.

Overall, the research found that the diverging interest in accounting reform is closely influenced by the level of understanding and prior experience of the actors either in financial reporting or managerial decision-making. Some participants start to show more interest on the new template after having better exposure in discussion session while

others remain uninterested. This disinterest is especially prevalent among non-accounting personnel and actors at RC who were not provided adequate training in spite of their heavier responsibility. Nevertheless, the research realises that to determine the interest on accrual accounting among the reform actors is quite difficult because they could simply not walk the talk. Their interest can only be proved further through the commitment shown in applying accrual accounting approach during the transition period as explained in the following paragraph.

6.1.1.2 Value for Commitments

Results revealed that the pattern of value commitments in this organisation has improved from a 'status quo' to 'competitive' pattern during the transition process. As MinA has a large size of organisational structure with various professional schemes, the success of its reform requires the commitment of many groups of actors, especially the non-accounting personnel. Moreover, actors at different level of the organisational hierarchy need to deal with different regulations including those imposed by state governments. Hence, each group of actors has their own set of institutional norms and particular restriction in their work practices as governed by specific professional bodies and rules at each state. As highlighted by one participant, *"The accounting personnel and auditor are quite easy to deal with but not the technical specialists and asset managers"* (PMA 2). This statement also suggests that the value for commitment is influenced by the roles and academic background of the actors, greatly depending on the nature of the organisation.

The data shows that some group of actors have gradually shown their appreciation on the value of accrual accounting initiatives by actively implementing the new technique, which supports the efficiency logic' intention whereas others tried to avoid this commitment. During the early stage of the reform, the technical specialists and the asset managers were quite reluctant to commit as they were entrenched in the prevailing accounting template and asset management practice. As shared by one senior accountant,

"We've organised many meeting's event and it has a long story. They (technical specialists) kept pointing to each other. If I brought one

specialist into the discussion, suddenly he told me you've to include another specialist in this meeting. Then we need to prepare another set of discussion...They refuse to accept any changes and perform any reform activities. They even yell to me by saying 'you go on your own, measure it by yourself' (PMA 3).

From this statement, the technical specialists showed their averseness to reform activities by transferring their new responsibility from one to another, causing a long delay in data collection process for road infrastructure. The report submitted to Account Division also indicated their ignorance on accrual accounting prescription by asking the concession company to complete the task on their behalf without any attempt to understand the actual requirement. For them, the new accounting approach only imposes additional procedures especially on valuation and data management. Hence, they were relatively satisfied with existing practices and wanted to prevent the emergence of accrual accounting approach.

The interview with actors involved in asset management again showed similar pattern of non-commitment. Although the Treasury Circular requires asset managers and asset officers to record all the transaction on moveable asset and ensure the record are properly supported, research found that this task was only partly performed. As admitted by the Asset Manager,

"Err... (7 sec) I don't know much about the detailed requirement of accrual accounting, as I'm only the asset manager. Actually, whoever holds this post will automatically become asset manager. So, I've no choice... Whatever they've reported to me, I'll just let my staff compile so that I can supply the same information to Accounts Division... In terms of verification, they also need to do on their own" (PMA 8).

From this statement, the asset manager is reluctant and knows nothing about her responsibility to support accrual accounting initiative. Moreover, the participant leaves most of this work to asset officer.

Unfortunately, the research found that the asset officer also performed the task at a minimal level. As revealed by one of the manager,

“Currently, they (asset officer) are not doing what they’re supposed to do. They only register whichever asset they want” (PMA 10). The same participant continued to elaborate on the main reason for the low-commitment displayed among the asset officers.

“They’ve other job to do which is more important and they’re not AGD personnel. Furthermore, there was no extra allowance given to do accrual accounting related task. To gain some incentive they need to perform overtime but not everyone is entitled to claim as it is only restricted to lower level staff” (PMA 10).

Based on this statement, the participant emphasised that asset officer faced the dilemma on multi-tasking responsibility and the lack of financial incentives in performing the reform task. Moreover, they do not have motivation to prioritise the reform task, as most of them are not accounting personnel. Thus, the actors choose to repudiate the new accounting rules by partly recording the information and submitting the report without checking the supporting document to show their compliance with Treasury’s rules. This has consequently led to inaccurate data on moveable asset as reported by internal auditor.

Although the accounting personnel received a higher pressure for compliance to the new accounting norms introduced by AGD, surprisingly some accounting personnel also showed low commitment. The auditors make clear this problem by stating,

“The Account Division should review all the documentation at the first stage...They’ve to ensure that all the transactions are substantiated by supporting document...But, from what they’ve done so far, they only accept the figures without any attempt to verify the accuracy of the data...Any problem arises, they just let us deal directly with RC” (PMA 4).

According to the auditor, the accounting personnel at Account Division tried to avoid the new responsibility in verifying the accuracy of new accounting data. In response to this, the accountant-in-charge argued,

“This is not our job, the asset manager or asset officer should do this... We have to be realistic...Do they expect us to verify one by one? It’s

ridiculous. Furthermore, the moveable assets are scattered all over Malaysia” (PMA 6).

By giving several reasons, the accountants were reluctant to commit to the new template prescription. They believe that their task is restricted to ensuring the data were input into the system and this would already comply with the AGDs expectation. Yet, the asset manager at RC claimed *“Without any attempt from Account Division to help me to recheck and resolve the issues highlighted by the audit, this has prolonged the process”*. Given the large number of moveable assets and the low commitment given by many groups of reform actors, the research found that their progress on data collection for moveable asset was relatively slow as compared to other ministries.

However, the ‘status quo commitment’ shown by the reform actors of this organisation slowly changed to ‘competitive commitment’ after the involvement of a new SG and one senior engineer. As highlighted by one senior accountant, *“We’re like from zero to hero... Luckily we’ve this engineer and new SG... They’ve showed their strong commitment in the meeting, suggesting some alternatives” (PMA 3)*. Supporting this point, another participant shared, *“Our new SG is optimistic about the reform idea. If he asks, others have no choice” (PMA 2)*. The effort shown by these two powerful actors in understanding and emphasising the importance of accrual accounting approach to other technical specialists has helped in minimising conflict. This has influenced their interest and commitment on reform activities especially in finding better solution for road’s valuation. Although this process has yet to be completed, it shows a positive shift in the commitment of this ministry.

In summary, what we can learn from the case is the shift in the pattern of value commitments in this ministry is influenced by the interest, capacity for action and the dominant power of some actors who are concerned with their reform progress. The case also proves the lack of commitment among the majority of non-accounting personnel and some accounting personnel becomes a hindrance to the radical change. These consequently lead to minimum content of changes in this ministry.

6.1.1.3 Power Dependencies

In the MPS, the SG of the Ministry is given the ultimate power to lead and determine the possibility for radical change in their own organisation. With large organisation's hierarchy, huge number of assets and major changes in work procedures related to management's operation, the organisation requires a strong support and internal pressures from SG. However, during the initial reform process, the organisation experienced a strong resistance to the institutional pressures exerted by former SG, which has significantly affected the organisation's reform progress. As shared by two senior accountants,

“Accounting is not important to our former SG...He even asked me, ‘why now only we need the changes? Is the previous approach not right’... So, everything will be done by us and he didn't want to play any single part related to accrual accounting” (PMA 2).

“At one of the important meetings which was right after Change Management session presented by Accountant General (AG), the SG had shouted loudly, ‘boring, they are talking rubbish’. That meeting was attended by many engineers, everybody was staring at me. I blushed ... I felt hurt, but I couldn't say anything as I was the only accounting personnel in that room...So, how to change to different practices if he didn't support us? Therefore, we're struggling alone... We tried to gain the data by following a trail of clues, like in a treasure hunt” (PMA 3).

These statements implied that the former SG totally ignored the reform initiative. The internal document also proved the negative response from the former SG, which has influenced many groups of actors, especially the technical specialists, caused them to avoid any tasks related to reform activities. Hence, the Account Division had to work harder as the instruction was not from the top management. Rather than top-down approach, they resorted to bottom-up approach through informal discussions and struggled to gather the information on opening balances.

Discussing the negative response given by SG, some participants suggested that this is related to the limited understanding and the high

power distance in Malaysian culture. According to one of the accountants,

“Probably the AG and CA are unable to stimulate the SG’s interest. He couldn’t understand accrual accounting by attending one session of training” (PMA 5).

The review on the internal documentation also indicated that there is only one formal session attended by the SG with regards to accrual accounting. Another possible explanation for this is the influence of high power distance in the MPS as explained in Section 3.2.3 earlier. As pointed out by another accountant:

“If AG could convince all the bosses earlier, I don’t think we need to face these consequences... Furthermore, I’m from the different scheme with lower level position. Who am I to question on their behaviour?...What I hear from SG is ‘boring, nonsense. And now, it seems that they didn’t even bother to pursue this project...” (PMA 3).

In this case, the participant highlighted the limitation faced by those in lower position to discuss and clarify the decision made by higher authority. As the former SG was from the same professional schemes with the majority of the official in MinA, he was more influential than accountant, with regards to his lower-level personnel. The SG was also the Head of Service for all the technical specialists in the MPS and thus, he had the power to determine their career path. Hence, the group of technical specialists and other personnel at lower position had no choice but to comply with the preference and expectation of SG. This finding provides some support on the implication of high power distance in managing the transition process in the MPS.

Surprisingly, the internal complication changed in the middle of 2014 when the organisation had a different SG. The research found that the new SG has actively participated and used his power to ensure the changes occur at all levels of his organisation. For instance,

“As a chairperson, we can see that he is knowledgeable and willing to offer his comments and share some opinions with us... He’s quite serious to know the progress of our data collection on assets” (PMA 2).

“The new SG is more concerned of and quite interested in this project. This is probably because he’s from UKAS, which deals with many private companies. Moreover, this is his KPI and he needs to sign-off the organisations’ financial statement... Starting from there we can see the difference” (PMA 3).

The statements above indicate that a new SG with experience and positive vibes uses the favourable power dependencies to spread his interests on accrual accounting to others. In order to comply with the expectation from the new SG, some technical specialists have started to compromise and play more active role in collecting the data for road, land, building and moveable assets.

However, besides SG, one of the departments under this Ministry, DeptA, needs to report to different higher authority, which is the Director for respective states. Every state has different rules especially for Malaysian Borneo. According to one participant,

“The DeptA of Sabah and Sarawak do not directly report to headquarters. Although they use the same logo, they need to report to different higher authority. They’re controlled directly by the State and their rules are different from that of Peninsular Malaysia” (PMA 3).

Given this condition, it is quite hard for SG or DG at headquarters to directly impose the standardised approach to all its branches. Indeed, this has become one of the major obstacles for MinA in implementing the radical reform initiative.

6.1.1.4 Capacity for Action

In the accounts of the events surrounding the attempt for radical changes for this organisation, research found that inadequate capacity for action has impeded its ability to respond adequately to the new prescription. Although the Account Division has conducted the change management activities to improve this condition, the data suggests that the organisational actors still have inadequate knowledge, experience, skills and suitable attitude in playing the roles given in transition process especially at RC. As reported by one accountant,

“Accountants were only available at ministry level. From the total of 80 RCs, only two RCs have the accountant. The rest only have official with scheme N (administrative) and accounting personnel with lower rank...So, who want to decide on whether to capitalise or expense-off, the valuation and classification?” (PMA 3).

Many participants also highlighted similar problem and they believed that this occurs as the final approval on AGD’s proposal to increase the number of accounting personnel for every ministry takes longer than it should. The review on the internal document proved that the PSD took more than a year to approve this application and the final guidance for RC’s restructuring was only available in 2015. Therefore, the organisation needed to prepare for an internal rearrangement, and the existing personnel, including the technical specialist, needed to do multitasking to ensure all the reform activity could be completed by 1 January 2015.

However, the evidence indicated that the multitasking requirement had caused dilemma among the reform actors especially at RC. As highlighted by the following quotes,

“They’ve their core responsibility besides asset management. Hence, they must divide their time accordingly. Myself for example, besides Account Manager, I’m also the head of Administrative Unit here. So, which one should I prioritise? This is the difficulty in this Ministry...So, I kept it aside, but subsequently I realised that it’s too late to record. We lost some of the item” (PMA 10).

“Too many reporting deadline. If that RC has a large volume of Account Receivable and various types of asset, this becomes an additional burden to them. They keep delaying because they’ve a very limited workforce and yet they’re given a very short time to prepare everything. Too much! This limitation subsequently prolongs our audit schedule” (PMA 4).

Both participants highlighted that since the reform actors have main tasks that requires immediate attention, the obligation to record and reconcile the data on assets were left behind while the number of property keeps increasing throughout time. Unfortunately, those with no

integrity have grabbed the opportunity to steal the unrecorded asset without anyone realising. As and when required, they just produce the relevant report to AGD without fulfilling all the requirement. Thus, the limited human resources and time have resulted in a heavier workload, leading to many irregularities in accounting record.

Furthermore, limited financial resources have exacerbated the condition. As commented by budgeting officer,

“It’s quite tough especially in 2014. It’s impossible to complete this major reform by December 2014...They want us to pull the vast information but they didn’t provide sufficient fund for us to do so...Therefore we show our resistance” (PMA 7).

Discussing funding constraint, the participant relates it to the radical approach and the massive reform scale. Although the organisation gravely needs an extra fund to cover for training cost, salary for new personnel, travelling expenses and overtime charges, the insufficient fund and the timeline for radical initiatives have limited their capability to perform an appropriate internal rearrangement, such as hiring temporary staff.

Moreover, there are some limitations in the training provided. As evidence in the following quotes,

“It’s hard for me to understand the content of training on MPSAS...They should make it more interactive and specialised for every ministry” (PMA 2).

“I can’t see the benefit of all this information...How could it enhance the government financial decisions? They didn’t explain this. I think about 90% of public servants, are still unclear about how it will affect us. They can only see the burden as suddenly we need to do the data collection” (PMA 7).

“As an asset manager for this ministry, I never attend any training on accrual accounting...Previous training prepared by MOF has not covered the application of accrual accounting in asset management... So, not much is related to us (PMA 8)”.

Through these statements, the three participants with different roles and academic background commented on the inadequate training that tailored to the roles of the reform actors, including asset management process. It has negatively affected the actors' understanding, especially those of non-accounting background, thus, leading to disinterest and resistance.

Besides lack of understanding, inadequate experience also affects their ability to perform necessary action to achieve the radical changes' intention. Highlighting the importance of experience, one of the participants said;

“Accrual accounting is a new thing in public services. Those who have experience in applying accrual accounting basis at private sector's company should be okay.... The problem is for those without any background, as what's happening in this ministry” (PMA 4).

This view suggests that working experience in accrual accounting practices is important to provide a clearer picture to the actors on how this concept should be applied in this organisation. Supporting this argument, the research received different feedback given by accountants with and without experience on the same question. One of the senior accountants with experience responded;

“I like accrual accounting. I'm so happy when I heard about this initiative because this is what I've learned. With this reform, I can apply whatever I've learned... I firmly believe in the ability of accrual accounting in enhancing decision making and internal control process” (PMA 3).

In contrast, the accountant without experience replied;

“...Previously we've learned about accrual accounting... But when we join the public service, we couldn't see how it applies in actual practice as we didn't prepare Balance Sheet for government. Therefore, I feel that I'm getting used to cash accounting. It's simpler as compared to accrual accounting and you don't have to think so much” (PMA 9).

“The problem now is to switch to accrual accounting because I used to perform my duty for the past 31 years in cash basis. I lost touch with accrual accounting a long time ago” (PMA 2).

The three statements implied that actors with experience show more interest compared to those don't. Observation on their participation in some reform activity also revealed that the experience is advantageous to the actors as it boosts their confidence, making them highly committed to the new logics. Given that there are limited numbers of accounting personnel with experience in this ministry, the organisation faced a very challenging situation in internalising the new accounting practices.

Apart from knowledge and experience, this research also discovered that management skills among the leaders, including the CA, are important to improve the capacity for action for the organisation. However, there were some negative comments about the CA. For example, one participant said,

“Our CA is trying to play safe. He is more towards hosting only but we need him to be proactive here. No thorough discussion on the proper strategy and the solution for any problem. Furthermore, I always heard him saying ‘I’ll become a pensioner very soon’. But, we’re expecting him to lead and guide us” (PMA 3).

Although the AGD has appointed the CA as the Change Ambassador, the participant in this scenario described the negative response shown by CA in managing the whole reform activities. Moreover, during the interview, the CA confessed *“I just monitor their performance through progress report...At my level, I’m not involved. So, I just forward this matter to AGD on whatever problem that we faced here” (PMA 2)*. From this, research found that the CA did not lead the reform team adequately. Similar pattern was shown by Head of Account Division at one of MinA's Department who said, *“Many things have been prepared at the ministry level. We at departmental level just continue with the existing task” (PMA 9)*. The review on the internal document also indicated that no active interaction or meeting were held for accrual accounting purposes throughout the reform period. This may explain why the actors at this department participated least in the reform activities.

The data also pointed to negative attitude limiting the capacity for action of this organisation. This theme came up in discussion on the complication of data on opening balances. Highlighting the low value of integrity in the recording process, one participant said,

“There was some difficulties in providing the data on government’s asset as there’s no integrity among them. I get upset because of this. If you don’t have integrity, every management tool introduced by the government will end with the same result. Majority of asset officers feel that ‘you don’t have to record it, just remain silent’ (PMA 10)”.

At the level of RC, the organisation deals with lots of actors who are dishonest. Blending such attitude with the long-existing accounting practices, any change requires some adjustment to cognitive process. As argued by another participant, *“We’re already comfortable with our work before, so, why we need to change it?”* (PMA 13). Both participants in this statement share their discomfort of the new logics. As a result, this restriction has complicated the process of adopting the new practices.

Whilst the minority of accounting personnel have no choice as the changes is in AGD’s interest, the majority of non-accounting personnel disagree with the new accounting regulations and pretend it is done. Taken together with other issues highlighting on capacity for action and its relationship with a mix of interest, power dependency and competitive pattern of commitment, the overall results suggests that the organisation only shows their minimal compliance with institutional norms without any substantial benefit to the organisation management practice.

6.1.2 Ministry B (MinB)

a) Adoption Process

The accounting reform’s journey in this ministry started off slowly with some bumpy events. Although some participants suggested that a small organisation like MinB could complete the changes in a fast and smooth manner, majority of them were surprised with a series of complication faced by this ministry. Immediately after 13th Malaysia General Election in May 2013, the organisation underwent a major restructuring process, whereby the function of two ministries with different sectors (i.e. tourism and culture) were combined under one roof. The sudden changes on the function and overall structures in MinB were not adequately supported by appropriate human resource requirement. The comments below illustrate this condition.

“Our organisational structure and policy keep changing. The worst part is when we combine two ministries into one without any additional staff. It’s hard for me to plan properly and make a firm decision on this matter” (PMB 1).

“When the Cultural Sector joined in, the ministry did not allocated extra manpower but our work volume is increasing...Due to severe shortage in workforce, we only choose the item that is accessible and convenient to gain the information such as account receivable and account payable....They (lower level accounting personnel) just do without proper understanding but at least we have some data to report...So, when AGD invite us to reform’s meeting, we attend but we’ve not properly started anything just yet” (PMB 4).

“The policy was established earlier, but there was no suitable manpower to carry out all the necessary action...AGD only want the data. To comply with the time given, they just want to show the data for a Mock Run regardless if it’s right or wrong,..Finally, the internal auditor needs to face the consequences” (PMB 5).

The statements above indicate how the recent changes in the organisational structures significantly affect the organisation. Majority of officials are of the tourism, art or cultural anthropology background, and a small number of accounting personnel are only available at Finance Division and a few agencies. Without proper training, they have imposed their individual meaning on identifying, valuing and recording transactions that they have never been exposed to. With inadequate accounting personnel and time constraint, the organisation struggled to complete the task demanded by AGD. Therefore, they had a very slow progress in 2013 and a lot of information generated during that period was not accurate for reporting purposes.

The ministry continued to experience a challenging reform process even after the new Account Division was established in 2014. Being one of a new SAD, the ministry has gradually started receiving additional number of accounting personnel since February 2014. Consistent with the decree to publish financial statement for every ministry, this new division has been given the responsibility to facilitate the changes process and success of every operational accounting activity for this ministry. Moreover, the data suggests that the top management expected the Account Division to quickly overcome

the irregularities and weaknesses in managing the financial issues highlighted in Financial Management Accountability Index (FMAI)⁵⁵. As the auditor said,

“We’ve a serious problem in financial management especially on asset. From 24 ministries, we’re at number 24 with only three stars in FMAI at 2013. In fact, we’re the one and only ministry that get three stars. Hence, the management really want the Account Division to improve this status” (PMB 3).

The review of report on FMAI for the year 2013 shows that the ministry recorded the lowest mark as compared to other 23 ministries because of poor performance in asset management, particularly physical assets and account receivable. It was not properly recorded, verified and supported. The management believed that the flaws were closely related to inadequate number of accounting personnel to appropriately manage the financial operations and management practices previously. With the establishment of Account Division, the top management therefore presumed that they could rectify all these irregularities.

Nevertheless, the delay in a full establishment of a new accounting team and various tasks prescribed for Account Division during the reform process has imposed severe restriction on the organisation. From the total of 22 accounting personnel approved, the organisation only received fifteen of them by December 2014. Since they need to complete all reform tasks within ten months before the original date of full adoption, many participants highlighted their concern on AGD’s delayed placement of new accounting personnel. As commented by one accountant, *“Only some officials in Account Division start their duty here... The problem is, AGD is very slow on this. Apart from reform activities, we need to prepare for initial set-up of a new SAD”* (PMB 4). This research found that although most of the accounting personnel in Account Division are new to the ministry, they had to prepare initial documentation as a new division, resolved problems highlighted in FMAI and completed all the transitional tasks within stipulated time. Thus, there was a sense of dissatisfaction amongst participants. As expressed by one accountant, *“Impossible! We’ve many things to do concurrently...We’ve to be really*

⁵⁵ FMAI was introduced in 2007 by government of Malaysia as an innovative tool to encourage continuous improvements in the government’s financial management. This index will indicate the level of quality of financial management for individual departments based on annual review conducted by an auditor from National Audit Department (NAD). In this process, the auditor will examine six areas including management on assets and inventories. From that assessment, NAD will give a score ranging from 1 to 4 with specific indicator, which is: unsatisfactory for 1 star, satisfactory for 2 stars, good for 3 stars and excellent for 4 stars.

familiar with this organisations.” (PMB 4). This view was echoed by another participant, “We feel depressed here...because everything happens in a short period” (PMB 3). Given this condition, the accounting personnel had no choice but to cope with multiple expectations imposed on them.

After the initial set-up, the Account Division quickly began the training and data collection activities. The data indicated that they did some adjustment on standardised reform activity to suit their capacity. As described by CA,

“Besides training on the new accounting policy, I’m trying to simultaneously do data collection. When we want the data from RC, we went directly to their office to know exactly how they manage their work. We’ll try to change their perception on account receivable...Through on-the-job training, slowly we educate them on the importance of subsidiary account, we also get to gather some information on other assets (PMB 3)”.

The statement above revealed their extra effort in accelerating the reform process. Through on-the-job training at selected RC, the Account Division managed both the training and data collection. Besides improving the process of identification and valuation for all types of assets, they believed that this is to enhance the actors’ understanding on previous logics before the introduction of a new one, which could help them in keeping up with the overall timeline.

However, evidence revealed that the organisation’s strong identity and its distinctive function in preserving the nature, social art and culture have complicated the efficiency logic internalisation process. It started when the top management highlighted their concern on the ambiguity and suitability of a new accounting regulation on cultural collections; consequently confounding their reform process in three different areas. Firstly, since IFAC and the Malaysian government did not prepare a specific accounting standard for cultural collections, the organisation had to refer to different form of regulations including MPSAS 17 for disclosure requirement. This standard requires the recognition of some cultural collections as heritage assets in the Statement of Financial Position. Additionally, paragraph 5.10 of The Interpretation of Accounting Policy states,

“Heritage asset shall be recorded in the accrual ledger if it is gazetted under National Heritage Act 2005. If cost is available, it shall be measured at cost. If

it's impractical to determine the cost, it shall be measured at a nominal cost of RM1”.

Meanwhile, MPSAS 33 gives transitional relief to the ministry to comply with the requirement on heritage assets for a period of three years (from 2015 till 2017). Based on the understanding of these rules, initially the organisation decided to prioritise the data collection for other type of assets and leave the heritage assets for a later stage. However, after several discussions, the organisation realised their mistakes in interpreting such new rules by assuming all its cultural collections as heritage asset, when, they should have differentiated the treatment between heritage and unique assets. Recognising the vague guideline prescribed on the cultural collections and a huge number of valuable artefacts owned by its agencies including Department of Museum, National Heritage and National Library that have yet to be gazetted as heritage assets, the organisation started to doubt their ability to comply with original timeline. Therefore, the Account Division felt more pressured to expedite the data collection for its unique assets before 31 December 2014. Nevertheless, none of the data was available as of 31 December 2015.

Secondly, based on the new regulations on cultural collections many actors argued on the main purpose of the classification and the appropriateness of the valuation rules to the organisation. The following argument illustrates this condition,

“It’s against our principle. We’re more towards cultural and heritage preservation and are not profit oriented. So why do we need to give a value of RM1 to those assets? How does it connect to our socio development?... We’re angry, but since the government really wants it, we try to deliver”(PMB 10)

“Our SG is totally against this provision. How can we value this item at RM1 only?...For some people, stone or debris of pottery don’t carry any value, but by discovering that item at archaeology site it carries important historical meaning and this sometimes could initiate further important archaeological research...So, why we want to value this item at RM1?” (PMB 4).

“It doesn’t reflect the actual value of this item. It’s priceless. If we value this item at RM1, it’s not worth for the government to maintain this asset (PMB 3).

“All of the museum’s items are priceless...They are all the witness or testimony of our country’s history. The fact in history must be supported by evidence...We need to keep it for the sake of society. It belongs to the whole nation, and it carries historical value. This is similar to the human dignity. So, you cannot simply give any value on it especially at RM1...Or else, we better not put any figure on those items” (PMB 7).

“PWC said that there’s no economic value for our collections. This is ridiculous. Their experience is mainly in private sector. Our museums and exhibitions have received many visitors including the international tourists who are willing to pay for entrance fee” (PMB 5).

The participants generally confirmed that they completely disagree on the new valuation approach stated for cultural collections, as this is inconsistent with the historical value of the items and its roles in the organisation. This is particularly awkward for archaeological item acquired through the work of the archaeologists in excavating an ancient site or the artefact donated or bequest to the federal government. Since many of these items are very rare and only available at that place at that particular time, it is impossible for the ministry to identify the original cost. The top management, therefore, strongly disagrees on the decision to record this item at a nominal value of RM 1. The Accounts Division consequently faced a dilemma and had to seek for a better solution.

In relation to this, some actors suggested using the market value for those items. The DG of Department B asserted,

“We’ve the expert that could resolve this issue. The National Heritage Department could provide the list of experts according to the type of the item, such as expert for copper and earthenware” (PMB 7).

In contrast, one of the policy makers at AGD argued,

“What’s the point appointing the valuer? Not worth it, cultural collections are typically hold for cultural importance and we’re not going to sell this property. So, although it’s shown at market value they still can’t sell that asset” (PC 3).

The manager for museum collector replied,

“So, why do we appoint the independent valuer for land and building? Isn’t it for the same reason as unique or heritage assets?”

The argument above indicate that whilst the organisational actors insist on the appointment of expert in pursuit of more appropriate value, the field level actors are more concerned on value for money for valuation purposes. The debate continues and this has led to more confusion among the reform actors.

Thirdly, besides confusion in guideline and argument on valuation approach, the new regulations caused disagreement among the reform actors on the appropriateness of depreciation concept for unique assets. Some participants argued that rather than depreciates, the value for this type of property appreciates throughout time. For example, one participant claimed,

“Although the item physically appears as obsolete, it appreciates in historical value” (PMB 4).

This view was echoed by two other participants, highlighting regular conservation activities to ensure the asset could be preserved longer.

“This is not like a normal asset in profit making company, it has a special purpose. We’ve done the regular preservation... So, for me, we don’t have to depreciate its value” (PMB12)

“This item is priceless, hence the value is continuously increasing. Therefore, we need sufficient allocation to preserve, to fix whatever damage on that asset... But, how to justify this need if the ministry didn’t show a sound financial position as many assets are valued at RM1?”(PMB 1).

Although the value of these items keeps increasing, unlike land, the cultural collections require regular maintenance. Also, by highlighting the nature and the contribution of asset to the organisation, the participants insisted that the depreciation rule is not suitable for this type of assets. The above arguments also remind us on the fundamental question, the main purpose of accrual accounting information in supporting efficiency logic; whether to faithfully reflect the financial position or to accurately measure the performance of the organisation. In the current situation, both intentions seem incompatible with the nature of its asset and its main roles. Instead, they need a better policy that aligns the accounting principle with the identity of this organisation to ensure the logics of new institutional practices become more meaningful to them.

Consistent with the arguments above, the organisation decided to directly confront the AGD. Initially, they submitted the special query for better explanation on the existing policy and better accounting approach for cultural collections. Unfortunately, the AGD did not show any serious attempt to entertain this request. Unsatisfied with this condition, the top management asserted,

“Our need is entirely different from another organisation which only has normal asset. We already highlighted to them, but they seemed to ignore our request... For us, they only see the dollar and cents. They didn’t look into our actual needs and civilisation of Malaysia as a whole. Our art and culture could not only be determined in absolute dollar and cents, not only based on economic indicator...We’re in government sectors and not a commercial entity” (PMB 7).

“We’ve compiled all the list for AGD but still no solution that can fulfil both intentions... The system will be run sometime next year, so we need to have a proper treatment for that item urgently” (PMB 1)

Since there were strong pressures from top management, historians and curators, the Account Division once again tried to appeal through one comprehensive working paper. In this paper, research found that the organisation’s request for more detailed accounting policy, suitable valuation approach and specific accounts code to record the information for this type of assets is unavailable in the current practice. From follow-up review, until now, there is no reply from AGD that satisfies their request. Hence, majority of participants assumed that the lead agencies are not really concerned on the new regulations on cultural collections. The ministry continues to negotiate on the ambiguity of the rules, which is conflicting to the identity of this organisation and in turn, prolong their reform process.

Additionally, as a result of the merging of two ministries, the organisation faced difficulties in determining the opening balance for land and building. As illustrated by the comment below,

“When the two ministries merged, we face many problems in reconciling the record for assets, especially land... Land matters are very tedious. It cannot be resolved within a year, as we need to get all the details from different

authority... Currently, the asset's ownership is not 100% reconciled and yet, we're in the process of finding its value" (PMB 2).

"There're also land owned by the states or royal family, but the building developed on the land utilises our fund for the purpose of tourism. For example, museum and rest area developed nearby tourist destination, Teluk Kemang Beach...but we don't have any right on that asset. (PMB 3).

"AGD has to be fair and consistent in their policy. Why MinA could recognise the road as their asset although the land still belongs to the states?" (PMB 1).

In this statement, three participants lamented on the complexities in identifying land and building rightfully owned by the organisation. The reconciliation proved to be extremely difficult if that land was previously managed by various ministries at different states. In resolving this complication, the AGD decided that MinB could not recognise some building as their assets as the land belongs to the states and there was no binding agreement between both parties. The management disagreed as they have spent much money to develop and maintain those assets. Moreover, they argued that this is inconsistent with the decision made on similar issues at different organisations. Nonetheless, they still have to adhere to AGD's decision by expense-off this huge investment.

With all these complexities and some unresolved issues, the Account Division still tried to comply with AGD requirement. Surprisingly, towards the end of 2014, the evidence shows that the postponement of full implementation has increased their burden even further. As a new SAD, the Account Division had to rearrange their reform plan in order to learn previous accounting practices and to prepare additional work relating to GFMS which was more costly and time-consuming for the actors. Hence, rather than focusing on internalisation of one new logics they had to divert their attention to accommodate the existence of two accounting operations under different logics simultaneously.

In the final part of reform process, the evidence showed that the Accounts Division has verified the accumulated data before forwarding them to Internal Auditor for further verification. Based on the modified verification's checklist, the auditor performed the verification on sampling basis. As shared by the auditor,

“We were given a standard checklist by PWC. But, knowing the history and the risk associated with this item, we did some adjustment. For example, PWC required no physical checking for moveable assets, but I still perform the physical verification. This item is easy to steal...yet the checklist given by PWC was too simple...I’ll present the findings and discuss how to resolve this issue with SG, its deputy and all other head of department every quarterly... Also, I’ll consult them whenever I personally meet the person-in-charge” (PMB 5).

In this statement, they claimed that the modification on standardised checklist is important to ensure the procedures implemented are more applicable in the organisational context. Besides modification on audit procedures, the statement indicate that they also communicated verbally the finding and recommendation to the relevant parties. As supported by asset manager,

“For all the data that Auditor’s couldn’t verify, they ask us to find the solution ...Sometimes we still can’t reconcile between the record and the item itself. We try to implement the auditor’s suggestion, if the item is actually missing, we need to declare or if the item is already disposed, then we need to update our record...It’s high time for us to recheck carefully” (PMB 6).

Together, these statements provide an insight into the importance of direct communication among the reform actors, helping them realign their understanding on the application of accrual accounting approach in this organisation. Although the asset managers struggled to cope with heavier workload, with clearer explanation they tried to accommodate for the new logics requirement and rectify any practical problems that arise accordingly. Therefore, we can find that besides reform preparation, the new accounting practices helped the organisation to strengthen some internal control procedures.

Overall, research found that this is the domain where the numerical representations are impractical and inappropriate leading to the contestation among the actors. The dominant attribute of the organisation has caused the diverging opinions regarding their traditional role, thus sparking an intense debate with field level actors. Furthermore, the consequences of the vague regulations for the monetary valuation of cultural collections are compounded by the incompatible demands and weaknesses in organisation’s intra-organisational dynamics. However, in order to show their responsiveness to

external expectations, the involvement of experienced auditor and an improved commitment among the key actors helped the organisation to overcome some of the conflict through compromise with bargaining tactics. After a year, the Account Division managed to improve their progress on training and data collection on assets and liabilities as summarised in **Appendix M**.

b) Intra-Organisational Dynamics

6.1.2.1 Interest

The data shows that there are different interests on the reform among the actors. Some actors prefer new practices as they believe in the potential changes on the managerial principles as promoted by lead agencies, while others remain uninterested and prefer the previous approach. As highlighted by the following quotes:

“Previous approach has many limitations. Through accrual-based financial statement, we can accurately measure the effectiveness of the ministry in utilising the public fund...we can compare between the costs that we’ve incurred including the capitalised expenses with the achievement of KPI for that program... Now they’re becoming more interested as they can see some improvement in our financial management...particularly in the reduction of account receivable” (PMB 3).

“It’s more transparent. I can share more meaningful information with our top management as compared to before. I could practice whatever I’ve learned and experienced in private sector, especially on debt management” (PMB 8).

“I’m more familiar with accrual accounting practices, we can easily detect the irregularities, manage account receivable and control the expenses in order to avoid higher future commitment. The previous accounting practices eliminate most of the information useful for control purposes” (PMB 5).

Unsatisfied with limited information produced by modified-cash accounting, the participants expressed their preference on accrual accounting by recognising its contribution to efficiency logic. This is

particularly obvious in the answers given by the participants with either educational or practical background on accounting. Moreover, the instant positive changes that occurred during the transition period are useful to nurture the interest on efficiency logic in this organisation.

In contrast, other participants without exposure on the new practices are sceptical of these changes. For example, two participants commented,

“Why we’ve to spend so much money on these changes? I don’t see any benefits to the agencies. We don’t need these...We can still do the saving without accrual accounting by enhancing the existing procedures...We need one pilot project to prove the potential contribution of accrual accounting before roll-out.” (PMB 10).

“I’m scared...As I’ve never been involved in accounting and financial planning because it embroils with many figures (PMB 7).

These contradictory views suggest that even in the same organisation, the extent of interest on accrual accounting can vary from one actor to another. It also reveals that the variation in the interest is influenced by the actor’s exposure on the new accounting practices.

Surprisingly, this research also found that some actors prefer accrual accounting to accommodate for two adverse purposes. One is for more convenient payment process and another, for favourable financial position. In relation to the first intention, the participants highlighted,

“In modified cash-basis whatever excess in the budget, we’ve to return to Treasury. We can’t use the unutilised fund in previous year to pay for the current expenses as allowed in accrual accounting....So, the most important thing in accrual accounting, is the abolishment of AP 58(a)⁵⁶... Currently we’ve many transactions under AP58. It will give a bad impression to our top management because it indicates the inefficiency in managing the budget” (PMB 2).“In accrual accounting, we don’t have to rush for the payment, like we do now. Currently, we have to clear everything by end of the year” (PM1).

⁵⁶ AP 58(a) refers to payment for previous year’s expenses in the current financial year. It often occurs among the agencies that fail to manage the expenses within the time and allocation provided. When the previous year budget are not sufficient to cover that expense this requires special approval from Treasury. If they fail to get an approval, the agency will be subjected to penalty.

In this statement, the participants expressed their belief that accrual accounting basis can enhance the payment process for accrued expenses. Unlike the new approach, the modified-cash basis would not allow this type of payment without prior approval because it will increase the government's obligation, hence restricting their flexibility in utilising the fund in future. Although it complies with new accounting regulations, the research found that this is against cash budgeting principles. The government, however, has no intention to change this procedure at the moment. Hence, rather than improve, accrual accounting may exacerbate the existing financial management practice that suits the participant's intention.

Secondly, the data indicate that the top management of this organisation preferred accrual accounting for a better display of its financial position. As highlighted by these statements:

"I'm not very sure of the top management's perception of accrual accounting as they didn't show it clearly...However, during meeting the SG has shown more concern on land and building as these assets potentially have a higher value as compared to the rest" (PMB 3).

"Our KSU is really concerned if we record the value on heritage or unique assets at RM1. He would be happy if we can attach a more appropriate value to that kind of asset" (PMB 4).

"What I can see now, they just want the information on the asset's value" (PMB 10).

Together these statements imply that the top management viewed that accrual accounting as more compelling than the previous approach because of the opportunity to reflect better financial position by displaying higher value in assets, useful for securing a higher allocation in OBB process. From the issues highlighted during the meeting, research also found that the SG tried to manage their interest by asking the Account Division to prioritise the data collection for high value assets, such as land and building and to negotiate for better accounting policy for unique and heritage asset. As highlighted earlier, the organisation however, faced difficulties in meeting these internal requirement as it involves policy decision. Therefore, one of the participants commented, *"Now, whether the top management like it or not, we have to*

continue...This is the national policy” (PMB 5). This suggests a loss of interest in accrual accounting from the top management, thus forcing the accounting personnel to deal with multiple interests and perplexity in continuing the reform process.

6.1.2.2 Value for Commitments

Result shows that the organisation faced challenges in getting consistent commitments from reform actors to do the reform activities. Since the organisation only has limited number of accounting personnel, it has to rely on the participation from non-accounting personnel, which may or may not support efficiency template. Moreover, the organisation has just expanded its core function and organisational structures, causing their operation to include actors with new roles locally and internationally. Recognising this limitation, the Account Division tried to buy-in the commitment from the top management of twelve agencies through awareness session and the main meetings. As reported by CA,

“In one management meeting chaired by SG, I sought to highlight our concern on accounting reform... This involves many parties according to the type of the assets including librarian and collection manager... Without their cooperation, we can’t get all the data... They agreed to appoint all DGs as a permanent members of AAIC. We’ve emphasised on their role and the importance of reliable data” (PMB 3).

Unfortunately, the CA subsequently complained about the absence of commitment among the DGs.

“Unfortunately, in the next meeting, instead of attending by themselves, they’ve only sent their representative... Moreover, we didn’t receive any feedback on data from them. So, I think they are still unsure of the actual requirement” (PMB 3).

This scenario indicates that many DGs are still reluctant to commit to this project. The review on the minutes of meeting also proved that there were many errors and inaccurate information supplied by the RC to Account Division. Although the report and progress meeting were only held on quarterly basis, the actors still refused to meet the institutional demands.

The participants suggested various possible reasons for lack of commitment. As highlighted above, the CA proposed that commitment to the new practices is influenced by the actor's understanding of the requirement of accrual accounting application. From the interview with one of the DGs, the DG said,

"We just follow. That's why we've an accountant to help us on financial management side ...I don't know much about accrual accounting, I'm more into operational side and the holistic view only. I only consult my accountant when we don't have enough fund...Moreover, we're a service agency, not a private company only concerned on profit making" (PMB 7).

This statement indicates that the DG did not understand how accrual accounting basis applies in the NPFM environment. Thus, he still believed that any accounting matters are only meant for accounting personnel and this has no relationship with his role as top management of the agency. Hence, rather than maximising his power to pressure other group of actors to perform the reform activities, he left all the work related to financial management and accounting to accounting personnel. Moreover, research found that there are many unresolved issues adversely affecting their interest and value on accrual accounting, including the policy on cultural collections that contradict their traditional roles in the MPS. Thus, it became harder for the Account Division to express and articulate the efficiency logic in this organisation.

From another perspective, a participant suggested that the organisational actors dearth of commitment towards the new template is due to the organisation's limited human resources especially at RC. As illustrated by the following quotes:

"In compiling this data it takes time to get the commitment from Asset Officer. This is not their main task...So, the additional task given on accrual accounting data has added to their existing job load. They don't have sufficient time to do everything concurrently (PMB 11).

"From the review on the report submitted, I found that they didn't do it properly as they have insufficient manpower. So, they just do it for the sake of compliance. They've other important things to do" (PMB 4).

The statement implies that with limited workforce, the reform actors, especially the asset's officer, prioritised their primary duty and not the data collection. The issue is more obvious among non-accounting personnel who have closer connection with the principal activity of the organisation. Since they need to comply with the instruction given by lead agency, they still provide the required information regardless of its accuracy.

In improving this situation, some accounting personnel decided to do on-the-job training by directly visiting the problematic RC. Through that session, they directly emphasised on how crucial such information is to the person-in charge and prepared some demonstration on the work process. As explained by the accounts assistant, *"We've 21 museums, we go there and teach them personally. We tell them the significance of the required information (PMB 9)"*. This differentiates this organisation from others that follow the standard practices imposed by lead agencies. This initiative has proved effective as documentation shows that some RC started cooperating better after on-the-job training. For instance, the collection' manager said,

"Actually, during the initial stage, the Account Division didn't invite us for any discussions. Although we're aware of the existence of Treasury Circular regarding accounting reform, as non-accounting personnel we couldn't imagine how it might affect us. So, we didn't take it seriously... Suddenly, they contacted and visited us. Based on our discussion, we'll try to compile whatever data we've... This would improvise our database and enhance our task in future" (PMB 12).

The participants collectively agreed that the on-the-job training has changed their perception on the new accounting and management practices. As they have never dealt with accounting matters before, this group of actors failed to recognise the connection between their existing task and the new practices. Thus, the growing knowledge on accrual accounting requirement has provided them with a new sets of expectations and commitments to new ways of managing the assets.

Since the AGD and Account Division tried relentlessly to push the ideology of new logic while the top management of the agencies remain unchanged in their belief, research found that the different groups of

actors showed contradictory commitment. As shared by some participants,

“I realise that the role of the organisations and their job commitment on core activities involving art, dance, entertainment and tourism promotion event have made them difficult to commit to the reform program especially the senior officer. They find it far more exciting and meaningful than the figures” (PMB 3).

“Accounting personnel only thinks about money only, like a private company...We’re talking about reality, focusing on society. But if they think that all these assets are only RM1, that’s not real for us” (PMB 7).

An uneasy tension arose especially between accounting personnel and historians or curators, as each profession became committed to different archetypes.

In this case, insufficient human resources and limited knowledge, coupled with the resistance on the new practices among the top management, create a dilemma which led to the ‘competitive commitment’ among the different group of actors. However, to avoid any punishment for breaking the new rules, they tried to commit to the new prescriptions but the internal aspects of this organisation have restricted their effort to do so. According to the auditor,

“But the instruction on accrual accounting and assets were given by the Treasury, they’ve no choice. So, they commit at 50-50 only... There were many discrepancies... They seem to be committed, actually they’re not” (PMB 5).

Consequently, the interview with internal audit and the content of Audit Reports revealed inaccurate information for opening balances. This has subsequently resulted in a slower speed of change with little improvement achieved by the organisation.

6.1.2.3 Power Dependencies

The data shows that the leader of this organisation possessed limited power to determine the direction of accounting change for this ministry. Since this project has been determined as one of the SG’s KPI, many

participants expected that he would exercise his power by giving a strong support and influencing all the organisational actors to operationalise the reform activities. Relating to this, one participant claimed,

“Our SG is very well-versed with accrual accounting. He will chair the meeting organised by Account Division... SG will give his command, and everyone will follow accordingly” (PMB 1).

In contrast, another participant commented,

“If he favours accrual accounting, he could mobilise the existing personnel to speed-up the process or provide Account Division few alternatives. But, he didn't...Moreover, most of them are from the ADO's scheme who are uninterested on accounting” (PMB 5).

Since there are different opinions on this, the research reviewed the minutes of meeting and other internal documentation to support any of these claims. The evidence suggested that besides the request for a more suitable valuation approach for heritage asset, there was no serious attempt from the SG to play an active role in supporting the norms of efficiency template, or strong pressure which might influence another actor to operationalise the means of the changes internally. Therefore, research found that there was no significant shift in the reform strategy to enable radical change in this organisation.

Apart from SG, the transition process also relies on the influence and actualisation of power by DGs to lead the change in every agency. However, as highlighted earlier, most of the DGs were doubtful of the idea of economic efficiency to achieve the traditional aims of the organisation. For example, one of the DGs argued,

“We're just decision maker. Once we receive the money, we'll spend accordingly. That's our role...As a custodian, we're not trying to make any profit which constantly requires us to monitor every revenue and expense...Therefore, my accountant will take care of everything concerning reform and financial matters” (PMB 7).

As there were no reference to any new principles related to efficiency logic such as accountability, and him letting others resolved any issues

relating to the reform, these implies the DG's preference for the prevailing financial management approach. Meanwhile, the accountant did complain about the resulting delegation of power to control the ultimate content of the reform, thus restricting the capability of the accountant to prepare necessary procedures to speed-up their progress:

“He’s the leader. But, he only knows little about this...His representative will attend the AAIC’s meeting most of the time...I can do it without him but others hardly listen to me” (PMB 8).

Consequently, this has influenced other group of actors, especially asset managers, to inadequately respond to the reform's demand. By linking this finding to the minimal activation of power among the top leader, the research found a reciprocal relationship between power dependencies with interest, commitment and capacity of action, which disabled radical changes in this organisation.

6.1.2.4 Capacity for Action

Despite an increasing number of accounting personnel, the organisation still faced some constraint in pooling knowledgeable and experienced human resources to complete the reform activities. Some participants suggested that the shortcoming in human resources, particularly at RC, occurred even before the transition process. As shared by the auditor,

“They’ve heavier workload due to the persistent imbalanced structure. At some RC, only one general clerk manages overall administration’s work, including assets and accounts” (PMB 5).

During the reform, besides administrative activities, the clerk needs to rectify and update the whole record of physical assets, account receivable and account payable. But the increase in the number of accounting personnel is disproportionate to these additional workload. Moreover, the evidence shows that the new accounting personnel need some time to adjust themselves to a new working environment before they could manage these demanding tasks. Therefore, some RC have difficulties submitting the required report within the stipulated time.

Besides limitation in number, research found that the majority of actors have inadequate understanding on the application of accrual accounting

in their work practices. This is obvious among non-accounting personnel, who have different academic background and practical experience, yet are heavily involved in reform activities. The following comments illustrate this condition,

“Majority of them couldn’t understand the process of accrual accounting especially those in Finance Division...The ADO only have general knowledge. This is the most difficult part...They’re the one who create that transaction, and yet, not all of them are accounting personnel” (PMB 5).

“When we went to RC, we found that our training approach didn’t improve their understanding. The ADO for example, this is not their field and totally not their interest. But they’re the one who manage the RC with only general clerk to assist” (PMB 4).

“It’s common for all financial officers in federal government’s organisation with no accounting background...They also have the perception that accounting work was only meant for accounting personnel” (PMB 3).

Conforming this situation, one of the ADO replies,

“What do they expect from me? I’m not an accountant. It’s taken me some times to understand and I’m still learning till now (PMB 1).”

Together, these statements indicate that the non-accounting personnel with no accounting background are struggling to understand and apply the new accounting technique in the current work process. This new work process requires a deeper understanding on accounting and its connection with financial management, yet the evidence shows that the training session organised by Account Division seems insufficient to meet their needs.

Given this condition, the research tries to investigate why the existing training program could not enhance their knowledge. Some participants emphasised on the weaknesses of the training content which does not cover the detailed requirement and application of accrual accounting in the new PFM environment. As the following quotes show;

“Rather than advanced knowledge, you need to teach them the objective and main purpose of accrual accounting...and some basic bookkeeping

procedures. If not, they can't appreciate and be committed to the whole process" (PMB 5).

"Exposure was given by Account Division to Asset Managers. The concept is insightful...But now I've to understand how the concept of depreciation, useful life and maintenance cost could be applied to my current work. They didn't teach that during the training session" (PMB 6).

"We need more information about how it works in asset management. Currently, we need to get the information by ourselves" (PMB 6).

"I don't know how they want to interrelate this new information. If they just show many items in Balance Sheet, obviously I can't understand it" (PMB 4).

Without a clear understanding on how to achieve to the final destination of the reform and its effect on current work practice, the actors with different roles could not appreciate the value of this reform. Moreover, the previous logics did not stimulate their interest on the technical application of accounting information in asset management or decision-making process. Therefore, they could not imagine how to translate the accrual accounting concept into reality.

In overcoming this problem, rather than theorisation, some actors suggested that the on-the-job training is a better training approach for non-accounting personnel. As one participant said,

"When I did personal coaching during on-the-job training session with person-in charge, then only they can understand and I can see some improvement in the submitted report" (PMB 9).

Highlighting on the positive response received after on-the-job training, the participant claimed that this approach has enabled them to personally demonstrate the relevant process to the reform actors for better understanding and compliance. However, this activity would demand extra cost and longer time than the standardised approach especially when this organisation has various agencies operating locally and internationally. Therefore, the organisation had only managed to organise limited on-the-job training throughout transition period.

Regardless of inadequate training, the data from this research indicate that the working experience in private company or public corporations provide some motivation for actors to understand and apply the whole mechanism of NPM initiatives. As claimed by some experienced participants,

“I used to audit the account for statutory body in accrual-based accounting, it’s good. But, even with 12 years experience, once I left it, I almost forget what I should do now. This is even worse when you didn’t have any experience...It’s because, the accrual accounting requirement is not easy to understand and implement, you need to work harder...Without experience it’s hard for me to quickly adapt to the new requirement” (PMB 5).

“It’s a good movement. I can see that they try to imitate the practices in commercial bank that I worked for before. Previously, the government agencies only focused on how to utilise the budget that we received, the higher the better. Now, we’re emphasising on efficiency” (PMB 9).

In contrast, the participant without relevant experience commented,

“Accrual accounting involves many subjective elements and professional judgement. I feel uncomfortable with this” (PMB 3).

In this statement, research found that the working experience has further boost the participant’s interest and confidence to adequately respond to radical reform initiative, as opposed to the participants without experience who are hesitant; as the reform includes some new features and technique unavailable under previous practices. The experience contributed to clear understanding and motivation to adopt new accounting’s prescription. These finding were also supported by the effort shown by both experienced participants in governing and organising their team in auditing and training activities in fundamentally different ways. Hence, the relevant working experience among the reform actors provides the advantage to the organisation to rapidly embrace the changes activities.

Apart from experience in the private sector practices, another participant insisted on the essential experience in public sector context. The participant argued,

“You should have a relevant working experience in government, because you need to know the nature of your ministry, its departments and the sectors before you could produce its financial statement effectively. Moreover, the objectives of public sector’s organisation are for public interest while profit-making is the aim for the private company. The nature also differs between the two” (PMB 3).

From this statement, the participant believed that the working experience with that ministry could enhance the capability of actors to differentiate and align the new approach according to the purpose and the identity of public organisation. Yet, this requirement has imposed limitation on the majority of accounting personnel in Account Division as they are relatively new to the ministry.

Additionally, some participants claimed that the lack of understanding from the consultant on the nature of public sector’s environment has introduced another complication in their data collection process. For instance, two participants commented,

“PWC could not even resolve the issue for historical asset...They didn’t understand our actual requirement and existing procedures on assets’ management (PMB 5).

“This is purely based on PWC’s understanding on commercial practices instead of government’s need...They’re not well-versed about the details of government procedures on asset management” (PMB 10).

To them, the consultant is lack of understanding on the inherent nature of public sector environment and the existing regulations. Since they have to deal with distinctive nature of operation and historical assets, this requires extra considerations from the consultant before they could propose the new regulations on cultural collections item and the standardised procedures for auditing and training. Consequently, they found that these new guidelines were incompatible with the organisation’s requirement, thus sparking an intense debate and further complicating the reform process.

Besides understanding and experience, the data proves that the additional responsibilities in reform process critically require the mobilisation of communication skills. As highlighted by the participants,

“As account assistant, I need to teach, demonstrate and follow-up closely with the person-in charge at RC...We need to communicate well with them, as we’re strangers who try to impose a new work routine on them” (PMB 9).

“I need to convince not only SG, also the DG and other non-accounting personnel to give their full commitment” (PMB 3).

“This is a mega project which involves many parties. For me, the frequent meetings and discussion sessions help the Account Division to better communicate their progress and problems... I’m also preparing a special meeting to clarify the finding on audit with SG, Account Division and RC” (PMB 5).

From these statements, the participants emphasised on the importance of communication skills from key actors in accelerating the reform process. Although the new Account Division faced difficulties in dealings with the new participant in accounting practices during the early stage, the research found that the effective communication has helped to reduce the conflict among the different group of actors. This has consequently improved their progress on reform activities.

6.1.3 Ministry C (MinC)

a) Adoption Process

Immediately after the official announcement of accrual accounting in 2011, the organisation, as one of the pioneers of SAD, started the reform activities by establishing two committees, AAIC and Working Group. Every department under this organisation was also required to establish accrual accounting team at their level. This team was then led by Account Division in organising change management activities for the whole organisation. Unlike others, the organisation was the only one that really emphasised on the importance of change management activities. They organised training session at the RC throughout the transition period and modified the standardised training syllabus to enlighten their staff on the general requirement of accrual accounting. According to CA,

“We’ve many RC, if we only teach at ministry, we can only manage maximum 50 audiences per session ... But, we’re afraid that our staff at RC have not

been adequately exposed to the new set of practices. From feedback received, we prepared the training according to the region and modify the training material... From this, we've managed to provide the exposure on accrual accounting template, manual and standards to more audiences including asset managers" (PMC 2).

Adding to this point, another participant said,

"The personnel at RC are the ones who will do the work, so they really need to understand... Sometimes we need to go back to the most basic rules, then only they can relate to accrual accounting treatment. It's because some of them tell us that they've never heard about this" (PMC 3).

By considering the variety in needs and the roles of actors in the large hierarchy of the organisation, the Account Division tried to improve the approach and content of the training. They believed that this initiative could accelerate the actors' attempt at understanding as compared to standardised training approach, all for a better conformance to the new accounting and financial management practices.

Besides training, the organisation tried to gather information on assets and liabilities within the deadline given. In doing this, the ministry prioritised their search based on availability and risk of misstatement of such information. As shared by senior accountant,

"We're more concerned on physical assets instead of Account Receivable (AR). Because we already have control over AR as reported in control ledger. For others, we didn't have any benchmark figures that we could rely on" (PMC 3).

Rather than treating every asset equally, the Account Division prioritised the data for physical assets. They started to deal directly not only with officials inside the organisation, but other public agencies including PWD for the information on assets under construction. Moreover, the documentation shows that the Account Division reported their progress on data collection in various meetings including Working Group Meeting on a monthly basis, AAIC and financial management meeting on a quarterly basis for monitoring purposes. From this, the research concluded that the organisation was really

concerned of their progress, therefore, actively managed their reform strategy in achieving the intended aim.

Similar to the previous two case studies, the organisation faced many complications during the data collection process. Among the most problematic issues highlighted by participants are complication of land ownership, poor recordkeeping on large volume of moveable assets and limited features of asset management systems. There is also ambiguity in the new policy for certain type of assets, such as air traffic control radar, airway and maritime beacon and sea craft boat. The following quotes illustrate this situation:

“Most of our time was spent on identifying and valuing these assets. This is the main problem... All our agencies that manage different mode of public transport own many land in many areas. For example Department C (DeptC), there are about 250 pieces of land that have the radar for air traffic control and tower on them. Some of them are still owned by the state government but the right to use is granted to the federal government... This requires some time for alienation process especially with the large size of the organisation” (PMC 1).

“We’ve vast amount of assets including the train and rail that we bought a long time ago... Also, we’ve different data from three different sources. One is generated manually, one is from SPA and another one is based on the report for meeting on assets, JKPAK. We couldn’t register some types of assets including airplane into the SPA because of its limited features” (PMC 2).

“The Asset Manager at RC didn’t monitor the record properly, reconcile the fluctuation, especially for assets purchased through centralised and contract basis.... So, we don’t know which one we could rely on until we finish verifying the 72 RCs” (PMC 3).

“Our radar is different from Ministry of Defence. They’ve primary radar while ours is for secondary purposes. Our boat’s function is also different from Customs Department... Currently, we didn’t record all of these assets yet. We’ve asked AGD how to classify this item, but till now AGD hasn’t responded” (PMC 3).

Through these statements, the participants revealed several complications due to the weaknesses in the previous asset management practices. Also, they highlighted the vagueness of the new accounting policies in classifying

and valuing the assets that have different functions. Hence, some RC required major reconciliation on their data on moveable assets in SPA, while others needed to rectify complicated issue on land ownership. With many issues to be resolved simultaneously, the validity of the data obtained for opening balances remains dubious.

After compiling the data for the whole ministry, the Account Division continued with verification process. As the first level of defence, the Accounts Division reviewed the accuracy of the accumulated data, especially moveable assets, all over the country. Discussing this, the CA said,

“We’re not trying to find the fault. Firstly, we want to ensure the data especially the value generated from SPA is the same as supporting document. Secondly, we want to ascertain whether all our assets are registered in the system...It’s too taxing, but we’ve learnt a lot from this process” (PMC 2).

This move implied that the Account Division was concerned of the accuracy of the information, particularly the value and the existence of the assets. The research also noticed that in order to avoid any query from Account Division, some asset officers began sharing their real problem and tried to ensure the accuracy of the data before submitting the report. Hence, the involvement of Account Division in this activity was critical not only for accrual accounting, but for resolving some irregularities in asset management.

Based on the report submitted by Account Division, the Internal Auditor prepared the verification as a second level of defence. According to them, they had extended the standardised auditing procedures to include physical inspection for all types of tangible assets on a higher number of samples. As claimed by the auditor,

“The number of samples suggested by the consultant is unsuitable for public sector context. They asked us to do the sampling at one fixed number and not based on percentage of coverage...This is weird. We paid so much but the checklist didn’t contain detailed procedures, the clearer responsibility of each party and specific format of audit report” (PMC 7).

Due to vagueness of audit checklist, an intense argument between Accounts Division and Internal Auditor on some audit procedures ensued. For instance, the accountant claimed,

“We’ve serious problem with our Internal Auditor...They’re very strict. For immovable asset, we should rely on the valuation made by the VPSD...But our Auditor went into detail including the position of the fence. What’s the purpose?”(PMC 2).

Arguing this point, the auditor asserted,

“On physical inspection, we’ll check the consistency of drawing plan. By comparing the drawing plan to physical building at the site, we found that some recent extension has not been updated in the drawing plan and the report” (PMC 7).

Besides audit procedures, they argued on the format of audit report. As commented by one accountant,

“They prepared the report according to their preference, one report for one type of asset. The content is similar to typical inspection, normal reprimand without summary and suggestion for improvement” (PMC 3).

In reply, the Auditor claimed that the existing report is sufficient for reform purposes.

“We’ve amended the format of the report according to our requirement. We feel that it’s fair and comprehensive...But recently, the Account Division requested for Executive Summary and we didn’t agree on that” (PMC 7).

As the period given to the auditor for verification was too short, the auditor ignored the request from Accounts Division. This conflict is reflective of the degree of choice and self-interest that the actors possess for handling internal and external constraints.

Based on the above scenario, the research found that the organisation has resorted to compromising with balancing tactics in response to the reform process. Although the organisation faced many complications in data collection and verification process, it tried to adhere to the new external rules and norms by modifying the standardised approach according to organisational feature and need. Strong support from the top management helped to stimulate the interest and commitment of the different group of actors to embrace the changes. This has ensured that the organisation’s progress is at par with other organisation and a relatively better quality of data

on asset and liabilities as summarised in **Appendix N**. The details on the influence of element in intra-organisational dynamics will be elaborated in the following paragraph.

b) Intra-Organisational Dynamics

6.1.3.1 Interest

The evidence revealed that many actors in this organisation showed their keen interest in the reform initiative. This is especially true among participants who have experience in applying accrual accounting and NPM initiatives in different contexts. For example, as an Under Secretary for National Budget Office before, the SG can articulate the relationship between accrual accounting and financial management tools from macro and micro-level perspective.

“We need accrual accounting to help us in differentiating the budget allocation between the cost-centre ministry and the profit centre ministry...Also, as a Controlling Officer, the organisation’s financial statement will tell how much my ministry is worth and the financial performance of all the agencies under my ministry. Whether it’s running in deficit or surplus” (PMC 1).

From macro-level perspective, the SG believed that more comprehensive information would help the central agencies to prepare for budget allocation, while from micro-level, the SG highlighted on the significance of financial statement for every ministry for performance evaluation. Besides SG, another participant with experience in auditing the accrual-based financial statement shared the same excitement.

“Accrual accounting is the best for us, and we’re at par with international requirement...You can access detailed financial information in one single report that can strengthen the internal control... All of my staff also prefer this basis because they’ve a working experience with private audit firm before. So, we’re familiar with audit process on full sets of accrual-based accounts” (PMC 7).

With relevant working experience, participants were capable of explaining the potential usefulness of accrual accounting information in

financial decision-making, which reinforces the NPM's intention. Therefore, they are interested to embrace this transformation.

Moreover, research found that this organisation is relatively exposed to the idea of efficiency logic as many of its agencies have already implemented corporate management approach. For example, port authorities that primarily aim to achieve gains and port services' improvement. With closer exposure to private sector context, some actors are easily convinced of the changes towards accrual accounting. As expressed by the SG,

"It's a good exercise by the government. Similar to our port and other corporation, we need accrual accounting to represent the actual performance and financial health of the organisation including our obligation in PFI and PPP... as we don't want to fall under the situation whereby we're running on deficit but according to financial statement we're in surplus" (PMC 1).

By underlining the outcome of the hidden information in previous accounting approach, the SG was interested to seek an alternative accounting basis as implemented by some of its private agencies. He hoped that this could provide a better reflection on financial performance and financial position for more prudent decision-making in the government.

Apart from the expectation which aligned with the one promoted at the field level, other participants dissatisfied with how modified-cash basis accommodated their interest in previous practice. They have begun to recognise the need for the change, as indicated by the following quotes,

"The current procedures don't work well. We're the one who prepared the report, so we know better how to utilise it. Yet we weren't involved in budgeting process. We should do it earlier for better efficiency" (PMC 3).

"We're concerned about the limited use of financial information in this ministry. Some RC has burst their budget because of higher expenditure towards end of the year, they didn't monitor the future commitment properly" (PCM 2).

The above statements indicate that some participants are interested in accrual accounting because they were dissatisfied with the limited

features of modified-cash information in the previous work flows, which constrained the usage of accounting information and accountant's role in the budgeting process. This has caused various negative implications; that they hope they could be changed through this reform.

In contrast, some participants insisted on maintaining the existing practice, as they could not recognise any needs for change. This is illustrated in the comments below,

“Accrual accounting? Actually, I couldn't see how they want to incorporate the idea of accrual accounting in budgeting process... I just monitor their performance based on budget utilisation, the higher the better... Hopefully, once we implement accrual accounting, there will be no more AP58 (a). This helps to resolve the problem on payment under AP58 (a)” (PMC 5).

“The agencies just give us the list of assets that they want and justification. Then we'll see whether it is important or not... We didn't use any previous financial information to make this decision. So, why we need to change?” (PMC 6).

Both participants, unclear on how to utilise the accrual accounting information, could not appreciate this initiative except for the approval to pay for excessive expenses. Therefore, they still prefer previous PFM practices that encourage the wastage instead of economic efficiency in managing public fund.

Overall, with relevant exposure and dissatisfaction over the previous template, the dominant actors such as SG and internal auditor have demonstrated their unwavering support of the new logics through active involvement in reform activities. The SG issued additional internal instruction while the auditor prepared the detailed audit procedures and findings, consequently forcing other actors to comply with the new regulations. The research, therefore, found that whilst a minority still could not see the relevance of accrual accounting in the existing workflow, all agreed that the changes are required for management compliance. Whether the organisational actors are translating their interest into practices, this could only be proven by researching their pattern of commitment, as will be explained in the next paragraph.

6.1.3.2 Value for Commitments

The research found that the various group of actors in this ministry has shown competitive commitment in implementing the reform activities. Majority of the participants complained that the group of non-accounting personnel were opposed to the new accounting template, especially during the initial stage. The comments below illustrate this condition,

“Initially, most officers especially from ADO’s scheme and Development Section just wanted to avoid the task on data collection. They said ‘this is not our job, this should be done by accountant’...They even didn’t attend any meeting related to accrual accounting. It’s hard for us to get the commitment from non-accounting personnel in this department...At one time, we didn’t submit any figure to Accounts Division” (PMC 8).

“The asset manager should be responsible to manage the data properly. I didn’t see their real commitment on this. They just do without thorough understanding. Just print from the system and submit without further review. They pass this responsibility 100% to us” (PMC 3).

Since all the data on physical asset could not be accessed directly by accounting personnel, they needed the cooperation from asset manager or other administrative officers. Some of them were still reluctant to furnish this information despite the very limited time given for data collection, thus prompting the Account Division to try discussing with the top management. The SG eventually agreed to issue a formal instruction directly to the respective officer to provide the required information. Since then, the asset officer has slowly started updating the information in the system and completed the relevant template.

For better understanding of this pattern of commitment, the research reviewed the applicable guideline on asset management and tried to get the feedback from asset managers and asset officers at one department over interviews. From this, the research found that the information required under new accounting practice does not differ much from the existing requirement on asset management, except for additional information on value and supporting documents. But, why were they reluctant to do this? Two reasons cited by the participants during the

interviews are, limited capacity for action and lack of interest. As suggested by the asset manager,

“Sometimes we’re so busy with other work...It’s difficult for me to balance the requirement of accrual accounting and our current job. So, normally I submit the report later than I am supposed to. I just rely on whatever data recorded by asset officers...Furthermore, this is not an important task. We just need to register and maintain the assets. That’s all...Actually, I don’t want to do this task. So, I feel like it’s a bit troublesome” (PMC 6).

Regarding the involvement of asset officer, one participant said,

From the fieldwork, I realised that the asset officer at this department are mostly air traffic controller, who work according to shift schedule and have to focus on their main duty for security purposes. Besides their main task, they need to do the administrative work, collecting revenue and managing assets. They have nobody else to turn to...Hence, they can only update some of the information if time permits (PMC 10).

And another participant commented,

“Actually, the asset officer didn’t get special allowance for doing accounting-related matters. They don’t have the motivation” (PMC 2).

Although the evidence shows that the responsibility of the asset officer is heavier as compared to the asset manager, due to the instruction from SG and Treasury, the asset officer still tried to prepare and submit the information to asset manager, hoping that the asset manager would review it. Since the asset manager devalued the importance of asset management and justified her obligation to prioritise other tasks, she thoughtlessly submitted any data available in the system to Account Division without analysing and reviewing such information. This exemplifies how the limited capacity of action and lack of interest lead to their low commitment towards reform activities.

Although the group of accounting personnel was frustrated, they tried to improve this condition. As expressed by one senior accountant, *“They give so many excuses, they even ask us to prepare the training on SPA for Asset Manager. That is totally beyond our scope... But I know this is*

for national interest, so we just try to do it” (PMC 2). Besides organising more training and asking for support from the top management, the research found that the Account Division directly contacted the respective department and RC for verification purposes. With closer interaction with the person-in-charge, they realised that besides asset manager, the DG also tried to avoid committing to the reform activities. As reported by one participant,

“I couldn’t see the active role played by some DG in this ministry...They didn’t prepare the meeting, no proper monitoring and were even late in submitting their report to us. They still couldn’t understand and value this initiative, but they pretend to. To them, any accounting matters need to be prepared by Account Division” (PMC 3).

In managing the lukewarm commitment from DG and non-accounting personnel, the group of accounting personnel spent more than two weeks focusing on the data reconciliation between the record in the system and its supporting document. From this process, they also had access to many other unreported and unrecorded transaction, including AUC, in which they tried to sort the valuation directly with VPSD and PSD.

This scenario proves that whilst some group of non-accounting personnel were against particular changes, the accounting personnel were strongly committed. As claimed by CA, *“Accounting personnel is more open and committed to this change because they already have basic knowledge on accrual accounting. Additionally, if they don’t perform I will give them a lower mark in their yearly performance appraisal” (PMC 2).* This was also visible through their extra effort in training, data collection and verification process. Strong commitment was also given by the group of auditors during verification process. Despite their busy schedule in handling other important duties, they still prioritised accrual accounting activities. Hence, with common interest and the power imposed by higher authority, it is easier to get more commitment from accounting personnel as compared to non-accounting personnel.

Surprisingly, there were also accounting personnel who were reluctant to commit to the reform activities. For example, one of the accounts clerk

commented *“I feel angry when the officer asked me to prepare the data for accrual accounting. Why do I need to do that? It just increases my current workload”* (PMC 9). With basic educational background and the relevant training, the participant still did not value the relevance of accrual accounting in improving PFM practices. In contrast, one of the non-accounting personnel said, *“What we do in accrual accounting is what we’re supposed to do previously. So, I don’t feel any extra burden on this”* (PMC 10). Without any educational and practical background in accounting, the participant showed a strong commitment in adopting the new practices by reconciling the vast information of moveable assets for 22 branches. In conclusion, these findings suggest that besides common understanding, interest and strong influence from the dominant power shown by SG and the CA, personal quality also differentiates the actor’s commitment towards adopting the new logics.

6.1.3.3 Power Dependencies

It is clear from the interviews and internal documentations that the organisation, in adopting accrual accounting practices, has received favourable support from the top management at ministry level, but not at departmental level. Many participants expressed their belief that the relevant experience has shaped the top management’s strong interest to exert the pressure and prompt another group of actors to achieve the goals and means of the change. For example, two participants highlighted,

“Since our Deputy SG has experience as an Under Secretary of Finance Division, he’ll support any request from us related to accrual accounting. If any department shows slow progress, he would scold the DG in that meeting....if our SG chairs that meeting, the Deputy also joins the session. Both of them are supportive and interested to see this project materialised” (PMC 2).

“Our new SG is initially from Budgeting Office in MoF and a senior advisor at World Bank. So, he’s really concerned with efficiency in financial management. Being a top leader, he has chaired most of the meetings and he’ll advise us what we should do in mobilising the resources. It’s easier” (PMC 5).

From this, research found that both participants exerted their dominant power in leading the reform process by actively participating in the meeting. They also aligned the reform approach in a more strategic way and allocated more fund for training and data collection. This supportive effort is crucial to improve the interest among non-accounting personnel to embrace the transformation.

Consistent with the favourable power dependencies shown by the top management, the Account Division utilised this opportunity to cultivate an interest on accrual accounting. They requested the top management to issue one internal circular, requiring every agency to establish a special committee and meeting to strategically monitor the reform. Research found that some agencies started to include the new norms in the existing PFM practice, while some others still did not. This was obvious among the agencies that have only assistant accountant as the highest authority to manage any financial matters. As commented by an assistant accountant,

“We never have accrual accounting meeting or any chance to update our progress to our DG. They couldn’t understand the whole new mechanism, but the time is too short for us to educate them. So, he never asks me about this... But, who am I to instruct all the bosses here?” (PMC 8).

The participant claimed that the DG was not interested and other non-accounting official did not provide adequate support because they were unaware of the detailed requirement of accrual accounting. Nonetheless, another participant argued, *“I think they’re fully aware. They have attended awareness session and quarterly meeting at the ministry level, but they expect the lower level staff and Account Division to do it”* (PMC 2). Without active participation from the DG, research found that the group of non-accounting personnel were not fully convinced and encouraged to actually perform the transformation activities. Consequently, many departments received little commitment from them thus, forcing the accounting personnel to work harder. Together, these results show that change is hard when the incorporation of power comes from groups with different beliefs and interests. Even with the full force from the top management, the transition process was still hectic, which then hinder a radical change.

6.1.3.4 Capacity for Action

Although the institutional context emphasises the need for new competencies that promote enhanced knowledge, experience and skills, the limited number of accounting personnel and personal attitude have challenged this organisation in developing an action capability. Majority of the participants believed that inadequate number of accounting personnel with suitable post is the main problem for this organisation. For example, one participant said,

“We’ve been given the personnel, but the problem is they’re all non-accounting personnel or lower level of accounting personnel...Only one department has an accountant, but other departments have either assistant accountant or general clerk only...AGD haven’t filled in the position just yet. So, what else can we do?” (PMC 3).

The delay in expanding the human capital structure at the field level, once again forced the organisation to maximise the available resources and mobilise them in a more systematic way to ensure change activities occur.

The direct involvement of non-accounting personnel in reform activities, however created many complications in the organisation. The evidence showed that most of them, especially at department and RCs level, needed to cope with their primary task and were unable to fully commit to accrual accounting activities. Moreover, as discussed in section 6.1.3.2 earlier, some of them did not receive any additional allowances for this task, yet were burdened with massive workload including reconciling the accumulated data for at least a decade. As commented by one participant,

“I really need additional staff. I need to manage the data in SPA for the whole department and I’m also required to go to all the branches to monitor and verify. This is not my primary task but my boss as the asset manager, is reluctant to do this. The asset officers are too busy, so they’ll only do whenever I remind them” (PMC 10).

In a stressful working condition, the participant expressed their disappointment by highlighting how others neglected the reform activities. Discussing this, another participant said,

“I’m only the assistant accountant, they don’t invite me to the management meeting. It’s hard for me to convince them since I’m holding a lower position than them... If they don’t want to give any cooperation during changes process, nothing much I can say...I’ve nobody here... Sometimes they just attack me back. We’ve a very complicated nature and a weird organisational structure. My boss is not interested at all. So for me, even they give us ten years we can’t complete this task” (PMC 8).

The comment above illustrates that due to the mismatch between the radical changes requirement and the human resources structure, many non-accounting personnel are not interested and feel demotivated to participate in the changes process.

The problem of inadequate workforce did not only occur at department level, but also at ministry level. As highlighted by the senior auditors,

“I’ve limitation in staff. We’ve many special investigation instructed by our SG...But, they’ve rejected our request for additional staff. So, to verify accrual accounting information, it’s an additional burden to us. We accept but we need to mobilise our staff” (PMC 7).

In managing this limitation, the auditor tried to prioritise and mobilise their existing personnel, thus, still managed to fulfil the requirement of the top management and AGD within stipulated time. On the contrary, the group of asset managers in similar situation could not manage this. Inadequate human resources, combined with the variability in individual interest and lack of commitment, resulted in low-quality data from the asset manager.

Responding to this condition, the organisation multiplies its effort in enhancing the actor’s understanding on how to operate the new accounting practice among the available human resources. The following comments illustrated this point:

“This is a major exercise for the government, and everyone has to understand. Hence, we need better engagement process at every level” (PMC 1).

“We’ve prepared various training session for accounting personnel. We understand that to convince others, they need to upgrade their knowledge. With sufficient knowledge, then only they become confident to talk” (PMC4).

“Since asset manager is responsible to manage all the information on assets, every training session at RC we’ll invite them...They must know how to apply the concepts of depreciation and impairment. Without any feedback from them, the accounting personnel wouldn’t know (PMC 2).

Due to the diversity in requirement, the Account Division organised intensive training programme for all reform actors according to region. The standardised training syllabus was also adjusted to suit the actor’s educational background and role.

However, the interview with some participants revealed an unsatisfactory outcome of this activity. The following quotes illustrate that there were still lack of understanding on the application of the new template among many reform actors,

“The engagement given is not enough... Most of them are still unclear. We’ve tried to measure whether our officers could understand how accrual accounting concept actually works and we find most of them are still unsure” (PMC 1).

“They’ve exposed so many figures and concept during the course. I’m not used to it. So, I’m confused” (PMC 10)

“I don’t know anything (crying)... because I’m busy with existing task (PMC 9)”.

In reply, the CA highlighted,

“If you really want to make the asset manager, ADO and clerk to understand, you need to have more intensive sessions, then only they could appreciate. Furthermore, this is only part of their job” (PMC 2).

Together, all of these proved that the non-accounting personnel and actors with lower level position and multiple tasks needed longer time to

understand before they could really appreciate the new logics and apply it accordingly. The CA also admitted that they were unable to prepare many trainings due to time constraint in managing various reform activities. Therefore, it is difficult for Account Division to hastily improve their understanding.

Despite all the effort implemented by Account Division to continuously enhance the capacity for action, the organisation still faced difficulties in getting adequate participation from some actors. One possible reason for this as suggested by some participants is personal attitude, as evident in the comments below,

“It all depends on the individual attitude. Of course, one individual is not the same as others. They’ve their own beliefs and preferences” (PMC 2).

“For me, the Asset Manager at ministry level has attitude problem. This is part of her main task. Given her position as an officer, she can manage all the resources if she wants to. The information is available in the system, just need to review and reconcile. But she chooses to ignore it” (PMC 8).

“I’ve many things to clarify on the asset, but I rarely ask the Asset Manager. She’s only interested in the report from us, but she makes no effort to understand the whole procedures. I’ve asked her about the record on radar, until now I didn’t get any reply (PMC 10).

In reply to the question about the relationship between asset management and accrual accounting, the Asset Manager said,

“I don’t know...I don’t really have much time to seek new information. I couldn’t be bothered (PMC 6)”.

The internal document also revealed several delay in the report submitted by the Asset Manager which contained many mistakes. This negative attitude indirectly demotivated the lower level staff to adopt the new requirement, thus consequently prolonging the data gathering process.

Albeit several challenges, the vast experience among the key actors in the application of accrual accounting provided the advantage to organisation in managing change. As claimed by the CA,

“Since I joined the government in 1983, I’ve been working with many organisations including Department of Telecom and Water Supply during the period of changes to corporatisation. So, I’m quite flexible and used to prepare the full set of financial statement under commercial accounting approach” (PMC 2).

Also, one of the auditors shared;

“I started my working career in one audit firm. Then, I moved to the company that produces national car before I become a civil servant... So, I’ve no problem in auditing the accrual accounting information” (PMC 7).

Both participants agreed that their previous employment have given them the exposure that enriches their knowledge and skills on how accrual accounting concept should be operated in public organisation. This is similar to the relevant experience possessed by SG and DSG as highlighted. The research found that they initiated the amendment on training approach, the preparation of internal circular and the amendment on verification activities. These initiatives helped clarify things for others. The experience also boost their confidence in applying the new regulation in this organisation. All of them have shown their common interest and flexibility consequently bringing the organisation the experience of change in a more appropriate manner.

The above point also exemplifies the importance of leadership skills in improving the organisations’ capacity especially when the reform activities involved multiple actors. Comparing to the earlier organisations, the research found that the SG, DSG, and the CA are charismatic leaders capable of leading the change by envisioning, energising and enabling all the resources given. For example, the budgeting officer said, *“Our SG really monitors the budget. With so many contingency events, he still manages to relocate the fund internally to support accrual accounting training. So, for me this is an important*

project for him” (PMC 5). Furthermore, the CA highlighted, “We’ll arrange for more training in the future. So far, we have sufficient fund to cater to all the transformation activities” (PMC 2). Although they required more fund in 2014 and 2015 where the organisation had to deal with two major incidents involving a missing plane and a crashed plane, they still allocated sufficient fund to continue the changes process. This breathed the much-needed strength for the Account Division to resolve all the challenges that they faced in attempting the radical change.

6.1.4 Relationships amongst Intra-Organisational Elements

This section summarises the relationship among interest, value for commitments, power dependencies and capacity for action based on the responses shown by the reform actors in this research. Research found that the connection between these four elements within the specific characteristics of the three public organisations, significantly influenced the organisational response towards the radical changes initiatives. On top of that, the theme of political will recurred throughout the dataset and complicated the changes process. This will be discussed in section 6.2.

6.1.4.1 Interest

Building on the institutional demands emanating from the field level, the new ideals on accrual accounting triggered an interest in efficiency logic among the organisational actors. However, the evidence in the three public organisation shows diverse interests in implementing the radical change. From the interviews, two groups of actors can be broadly distinguished by their preferential views of the new practices. The first group comprises of accounting personnel and some top management, who expressed their dissatisfaction over the limited disclosure provided by the modified-cash basis, which causes limited usage and accountant involvements, leading to the deficiencies in PFM. Thus, they had rather strong reform ambitions by believing that the alternative approach could provide more comprehensive and reflective financial information to accomplish efficiency gains in NPFM framework. This belief is consistent with the new institutional logics promoted at the field level displayed by line (b) in **Figure 8**.

In contrast, the other group of actors, the non-accounting personnel still preferred previous accounting template. The group of asset managers and asset officers felt that the new approach was a burden, as it required more detailed attention, while they were simultaneously expected to fulfil their core duties. Other technical experts, historians and cultural anthropologists were uninterested as the new logics are against the objective and the traditional nature of public organisation, which emphasises the social welfare logic. With a variety of perspectives expressed by different group of actors, research found that their interest depends on their knowledge and experience about accrual accounting (line (g) in *Figure 8*). Those with practical experience and relevant knowledge were interested in the reform as these enabled them to visualise on how to actualise the new regulations into real practices. On the contrary, those without experience and knowledge were unable to foresee the potential benefit of accrual accounting. Moreover, a strong inclination towards previous logic makes it harder for them to accept and implement the new practices. Therefore, even in the same organisation context, the extent of interest can vary amongst actors.

However, there were also actors, with no accounting background, who were really interested and enthusiastic to explore the application of accrual accounting in their work practice. Their interest developed throughout time especially if the potential benefit materialised during the transition process as exemplified by MinB. The specific characteristics of the organisation and the effort to nurture the interest provide the possibility to influence the cognitive process among actors. For instance, the engineer involved in road valuation. Although initially the actor had challenged the content and requirement of new accounting approach, through a series of discussion, he proposed a new valuation technique on infrastructure assets which has subsequently encouraged the involvement of more non-accounting personnel in reform activities. Similar scenario was also experienced by the museum collection manager in MinB. This demonstrates the importance of suitable change management activities in minimising the conflict amongst actors and harmonising between logics further leading to the improvement in interest.

6.1.4.2 Value for Commitments

Given the highly bureaucratic structure of public sector environment, the data suggests that the involvement of different group of actors with different educational background at different organisational hierarchy contributed to the inconsistent pattern of commitment which change overtime. The research found that the changes in this pattern were influenced by three main factors. The most obvious is the interest in new template as specified by (line **(i)** in **Figure 8**), whereby the dissatisfaction on previous financial management practice generated a strong belief amongst many accounting personnel to appreciate the value of accrual accounting in supporting efficiency logic. They started showing their interest in training sessions and discussions, and were committed to perform the data collection. However, since all the three organisations had a smaller number of accounting personnel compared to non-accounting personnel, their influence had little impact on general recognition and the way the organisation was committed to reform activities.

Besides interest, the pattern of commitment within the organisation depends on the actor's understanding of the new requirement and length of period they worked with the government. Result revealed that the longer the reform actors' serve the government, the harder it is to commit fully to reform activities as they are already complacent with previous logics which rarely demands their professional judgements and discourage the usage of accounting information in decision-making process. Moreover, the training organised by some organisation failed to improve the actors' understanding, especially when the new regulations are vague to apply within the existing norms. Consequently, these caused some arguments on the legitimate practice among them. This proves that the actor's commitment has a close relationship with capacity for action (line **(k)** in **Figure 8**), in which their reciprocal relationship was not highlighted by Greenwood & Hinings (1996) earlier.

In addition, the data shows that the commitment among actors will depend on the actualisation of power possessed by SG in managing the radical change. Since the SG holds the ultimatum to organise and control the key decision of the organisation, once the SG demonstrates his interest in the new logics, others would possibly follow suit (line **(j)** in

Figure 8). For example, with supportive power dependencies from SG of MinC, its organisational actors were more committed to internally resolve any conflict, as compared to MinA and MinB. Combining all the possible causes that determine the pattern for value commitment above, the data shows that MinA shifted from status-quo to competitive commitment, while MinB and MinC displays competitive commitment.

6.1.4.3 Power Dependencies

After all the effort in gaining the support and participation from the SG at the field and organisational level, the data reveals that there are still variation in responses shown by them. In particular, some SG were very supportive, while others were not. From internal documentation and feedback received during the interview, the SG for MinC is very supportive in adopting the new practices by realigning the reform approach and the issuance of special internal instruction. In contrast, the SG for both the MinA and MinB played a very minimal role and relied on Account Division to ensure that changes occurred in their organisation. They left all of the problems related to the reform process to be resolved by the CA using bottom to top approach. This includes dealing directly with non-accounting personnel, who generally resisted the new template. Therefore, MinC demonstrated faster reform progress compared to MinA and MinB.

In identifying the reason behind the differences in response shown by SG, research found that this depends on their ability to understand the requirement of accrual accounting and its connection with management area which shape their overall belief and interest (line **(f)** and **(h)** in **Figure 8**). This will influence how they actualise their power in giving the internal pressure for change, subsequently either facilitating or stifling the reform process. This is especially relevant in the MPS context where the SG have been accorded high status and power over their own organisation. Therefore, in Malaysia, there was a reciprocal relationship between power dependency and commitment (line **(j)** in **Figure 8**).

Besides the dependency of power on SG, some participants highlighted that the reform would rely on the power of Accountant General to ensure the commitment to implement reform activities amongst accounting personnel (line **(j)** in **Figure 8**). The power of Accountant General as

Head of Services represented by CA of every ministry is believed to greatly influence the career path of accounting personnel at every public organisation through the marks given in annual performance appraisal. Therefore, the data from three different ministries implied that it is easier for the Account Division to get the commitment from accounting personnel compared to different schemes such as ADS and technical expert.

6.1.4.4 Capacity for Action

The evidence shows that the main problem to properly internalise the new accounting practice in the three organisations was caused by the limited capacity for action, both in term of availability and mobilisation. In particular, this includes the lack of personnel with appropriate knowledge, experience, skills, personal attitude plus the constraint in financial resources. Many attributed this problem to weaknesses in content and training approach, as well as insufficient number of training. Moreover, since accrual accounting requires a deeper understanding of specific operation of the organisations, the current policy on job rotation for accountant seems to prevent this from happening. In all three cases, the evidence shows that many accounting personnel did not have sufficient knowledge and experience with the operations of the organisation before they could properly account specific transaction such as heritage asset and infrastructure asset. Without this, the government had to hire external consultant to help them deal with this type of assets. However, as the nature of the private sector and public sector requires different treatment, the involvement of external consultant has failed to timely help the government solve this issue.

Furthermore, with additional roles being imposed on the reform actors in RC, majority of the participants highlighted their concern on the imbalance in the capacity for action for this group. Previously, their job responsibilities and routine work had been relatively simple as it only involved the cash movement without any need for professional judgement. In the new template, the actors, who are normally lower-level personnel only with no accounting background, were expected to properly identify, classify and record every economic transaction. With no additional salary and other monetary benefits, they became

discouraged to concentrate on their work and update their knowledge of accounting and ongoing reforms. Therefore, it seems difficult for them to grasp and apply all these new knowledge instantly.

In overcoming this problem, every organisation utilised different strategies. MinC prepared an intensive training with modified syllabus and mobilised its accounting personnel in verification process, MinB prepared on-the-job training and some negotiation with AGD, while MinA merely implemented the standardised approach. From this, the research found that the ability to manage the capacity of action depend on the power dependencies, interest, and value for commitment of the organisation as indicated by line **(f)**, **(g)** and **(k)** respectively. Although these organisations organised the training in different form, there was still lack of understanding especially among the non-accounting personnel. Combining this situation with diverging interest and commitment, limited time and limited support from the top management, all three federal organisations found complying with institutional pressures in maximising economic efficiency problematic.

6.2 POLITICAL WILL

Besides the four elements above, a recurrent theme in the interviews was a sense amongst interviewees that strong political power has influenced the speed and the extent of internalisation process. As highlighted earlier, Malaysia experienced the changes of political climate within the period of 2010 till 2015 leading to the variation of preference in managing the PFM to accrual accounting approach. Two main reasons support this argument and highlight the importance to include political will as one of the elements that has influenced the Malaysian PSAR. Firstly, the ultimate power was given to the highest political decision maker to decide on the initial date to enforce the full implementation of accrual accounting at the FGoM. The evidence shows that initially, the Malaysian politicians strongly supported the accrual accounting implementation. For this purpose, the government needed to prepare the legislative proposal in the form of a public bills for an amendment of Financial Procedures Act 1957⁵⁷. This required four reading sessions before the bills were

⁵⁷ Financial Procedures Act 1957 is the law that provides the whole management and control measures of the public finances of Malaysia. In particular, the Act governs the financial and accounting procedure covering the collection, custody, and payment of public moneys for the Federation and the States. In this research, public moneys means all revenue, loan, trust and other moneys and all bonds, debentures, and other securities whatsoever raised or received by or on account of the Federation or by or on account of a State but does not include Zakat, Fitrah, Baitul Mal or similar Islamic religious revenues.

approved by the upper house of the Parliament. After the first reading on 7 October 2014, however, the bill was subsequently withdrawn on the decision of the government to change the implementation strategy through the letter signed by Minister of Finance II to the Speaker of Parliament dated 18 November 2014. Although earlier they had decided to start by 1 January 2015, the powerful political decision maker extended the process of approval of the public bill from 2010 until now.

The delay has incited scepticism among the actors on the real intention of this initiative. According to the key actors at AGD, they had presented the simulation figure of the government's financial position to a group of politicians and top management at MoF in the middle of 2014. Surprisingly, the Treasury, through a letter dated 27 October 2014, decided to change the original date of full implementation of accrual accounting to an uncertain date in the future due to risk management. The AGD, in further clarification through the internal circularisation, informed that the changes in original strategy were necessary to ensure the 1GFMAS could be operated in a stable and smooth manner. However, rather than accepting the technical reason provided by AGD, most participants viewed that decision as a declining political will among the top Malaysian politicians. As illustrated by the following quotes,

"No, I don't think because of AGD but because of the political master. I don't think they're ready for this. Suddenly they say 'we're not ready' but they already announced in 2010 before. Because they just realise that 'there's a big chance that I'll not become a Prime Minister for the next term'" (U3).

"When they announced that accrual accounting will be implemented in 2015, I laughed...Because the most important thing is they must ensure they're politically ready...I guess they are not ready yet" (U8).

"The deferment is related to political matters...They'll dare to gazette the public bills by 2017, right before the next general election" (PC 3).

"When we're so close to the date, they start to panic on what we're getting into... So, they decide to hold this project for a while. For me, this indicate they have no political will" (PC7).

"The only problem now is about when the government will be satisfied, confident or comfortable to present an accrual-based financial statement to parliament" (PC1).

Although the government claimed that the postponement is closely related to risk management, the statements above and documentation implied that the deferment is to serve the requirement of politicians in power.

Due to the strong claim on the reduction in political will, the research examined the documentation related to the simulation process and compared it to the view shared by the participants through interviews. Many participants suggested that the government's financial position as presented to the top management earlier was not in favour of the ruling party's political position. For example, three participants said,

"Initially, they didn't realise the information that accrual accounting is going to show. Finally, after they've seen the simulation figures where it shows everything, they start to panic" (PC7).

"The amount of debt presented to the decision maker in the simulation process is against the self-imposed rule. The result is not favourable to existing political decision maker" (PC 9).

"If the financial position presented is in favour of their political stance, they may continue to process the endorsement of the act in the parliament, or else this process will be delayed like now" (U4).

The review on the simulation' figure, in fact, reinforced this assertion. It shows that the total percentage of debt over GDP determined under accrual accounting is above 55%, which is against the 'self-imposed rules'. This is because, the amount of debt under accrual accounting should include any future payment including pension liability, PPP and PFI project, whereas the Treasury calculated the amount of debt based on GFS 2011, in which the debt is only restricted to Malaysia Government Securities and other types of government's financial instruments. If they want to stick to the original plan, the politicians should try to understand the difference and the reason in the increase in public debt and explain to the public, which they have failed to do. As claimed by one participant, *"They must be able to articulate each of the element very well...must be able to clarify "Why did I have a massive debt?..But now they can't explain that."* (CC2). With the political instability and their lack of understanding of the accounting information, they would rather hold the date for full implementation, consequently changing the overall reform plan.

The decision above subsequently brings the research to the second point, which demonstrates how the political will exert more pressure on the reform actors to accommodate to the political ideal. Some participants suggested that Malaysian

politicians hold the ultimate power in determining public policy. As illustrated by one participant,

“When the decision to implement accrual accounting came from the top political decision maker, we’re very happy. Because if the top ask you to do something, we don’t have to worry” (PC 7).

However, towards the end of the reform process, another participants commented

“So poor for Malaysia...What to do? In Malaysia, politicians decide everything. Even the license for petty traders also requires political intervention...They’ve a strong influence over our everyday transactions. Everything requires political relationship, yet the politicians didn’t have a good knowledge on accrual accounting” (U 3).

“Now AGD need to convince the top management at MoF and politicians to continue the accrual accounting project. But, they have to identify alternative formula that could show healthier financial conditions” (PC 9).

Interestingly, the above statement indicated the presence of ‘high power distance’ in Malaysian culture and its relationship with the unfavourable financial position, generating an intense dilemma for the reform actors in AGD. This condition created an opportunity for the political leader to choose which accounting treatment best suits their preference even if this option contradicts with the general principle of accounting regulations.

Given that the politicians were mainly interested in the level of public debt, one of the alternatives identified by AGD and agreed upon is to reduce the debt’s amount by temporarily deferring the adoption of three accounting standards as explained in section 5.3.2.1. This option will cause the percentage of debt over GDP to fall below the self-imposed rules and yet, it hides the information on PPP, PFI and pension liabilities. A significant amount of government’s liability remains in off-balance sheet, resulting in the new approach being closer to modified-cash basis (line **(o)** and **(p)** in **Figure 8**). This is inconsistent with faithful representation as idealised in efficiency logic that lead to information asymmetry among its potential users, including bureaucrats and the public. From this, the research concludes that the involvement of politicians complicates the reform process even further.

6.3 OUTCOME OF THE CHANGES

As promoted in the early stage of the reform, a new ideal in governmental accounting practice emphasised the efficiency logic, making PFM’s improvement possible.

Consistent with this, the majority of reform actors expressed their high expectations on the ability of accrual accounting to initiate the radical changes in Malaysian PFM practices. However, the result indicates that the effect of economic, political, social and organisational context seems to inhibit, and place additional pressure on the potential for real change. After five years of engaging with the initiation, imposition and internalisation of accrual accounting practices at the field and organisational level, the research found that the FGoM only achieved a very minimal outcome, falling short of its original expectation.

6.3.1 Expected Outcome

With the adoption of accrual accounting, the evidence collected in the three case studies reveal some improvement in the record for assets, better management on account receivable and compliance in payment procedures. Regarding the improvement of record on asset, many organisational actors started to fully utilise the function of the existing database system and tried to overcome the weaknesses in the previous practices. According to one of the participants, *“Previously, we didn’t see the importance of having updated data for our physical asset, as we rarely discussed this information with top management. But now, it’s good especially to avoid any theft of the property”* (PMC 10). Although this is just the beginning, the participant believed that the complete database would help the organisation to consistently be on alert of the movement on asset. This will also help them to strengthen the internal control procedures for more effective asset management.

On account receivable, research found that some organisations have started to manage the debt outstanding from internal and external parties according to the guideline prepared by Treasury. This is substantiated by the findings revealed by MinB on the significant reduction of its long outstanding debt as a consequence of accrual accounting adoption. As claimed by the CA,

“Previously our agency didn’t have any initiative to monitor this transaction carefully and thus, the value of debts kept increasing... To avoid the possibility of being interrogated on the large amount of outstanding debt, they began to collect some of this debt and strengthen the existing rental process” (PMB 3).

According to the participants, some agencies have taken serious effort to reduce the outstanding debt either by reminder or even litigation claims against the local and international firm. Moreover, the review on internal

document shows that none of these debtors were allowed to rent the space in that agency anymore until they made full settlement. Therefore, the amount reported on debtors has significantly reduced and this subsequently became an eye opener to the top management of MinB to recognise the accrual accounting contribution in management practices.

Besides that, this reform has successfully enhanced the accounting operation for the organisation, which is previously operated as Non-SAD. As highlighted by two participants from MinB,

“With the establishment of Accounts Division, the accounting personnel try to speed-up the payment and prepare the required report...They check all the supporting document thoroughly which the Finance Division just approve without verification previously (PMB 5)

“Our Account Division has started issuing the query, requesting the contract and rejecting some claims that did not comply with Treasury’s Circular...stricter than before” (PMB 8).

By establishing a new Account Division, both participants claimed that MinB has successfully improved the payment process and educated other personnel to adhere to the applicable rules. From this, it shows that the reform has enabled more efficient payment and better rules-compliance in some organisations.

6.3.2 Unexpected Outcome

Apart from expected outcome, the research also found unexpected consequences of accrual accounting adoption. Although the reform started with the ambitious intention of having comprehensive financial information for better transparency, accuracy, accountability and cost effectiveness in a radical manner, the immediate unexpected outcome has turned that intention to become more gradual both in terms of its content and speed. More importantly, rather than management tool, accrual accounting has become a political tool. The following paragraph will explain how the reform has failed to achieve its intended intention.

6.3.2.1 Gradual Reform Progress

The evidence revealed that the reform was conducted slower than expected and the quality of financial data produced has deteriorated. Although the original deadline for this transformation is on 31 December 2014, none of the federal public organisation managed to complete their data collection and verification process till now. The development of new accounting system is far behind the original schedule and there are many unresolved issues related to assets. Due to this, the intention to achieve main reform agenda by linking the accrual accounting with budgeting process for prudence fiscal management in 2017 is slowly disappearing.

Majority of the participants associated the failure to materialise the radical reform strategy with the weaknesses of the strategy itself. Within a tight deadline, the actors had to implement multiple activities in large scales concurrently. With limited human resources especially non-accounting personnel, many organisations faced the problem of frequent reshuffling and insufficient monetary benefits causing the reform actors to resist rather than embrace the change. Thus, some participants viewed this strategy as *“very tall order and challenging period”* (PC5), *“a colossal scale, massive project”* (PC7) and *“ambitious...even IMF says that it is ridiculous if you want to do everything within this timeline”* (PC8). In contrast, other participants supported this radical approach. As illustrated by the following quotes:

“We can learn from those countries that completed the transition process. Initially, these countries had to formulate the accounting policy from scratch without any benchmark. Therefore, they needed a longer period compared to us” (PC 1).

“I didn’t foresee any problem if we try to work into it, provided we have the right model, the right technology, a stable database and the right system” (PMA 1).

“As we want to become a developed nation in 2020, we need to do the radical reform because we only have 6 years left to achieve all the targeted indicator” (U3).

Nevertheless, the interviews and documents revealed that the policy makers did not thoroughly consider the primary objective and the means of the reform in the written regulations. Some of the new policy and guideline proposed by the consultant disregarded the actual needs and the dominant features of public organisations. As demonstrated earlier, the new accounting regulations developed for many cultural collections and infrastructure works are vague and contradict with the interest and value emphasised at organisation level. The guideline for verification procedures is also ambiguous leaving many grey areas for the actors to interpret and react accordingly. Apart from that, some participant voiced their concern on the lack of essential explanation on the relationship between the different PFM tools. For example, *“How should the fiscal reform be and now you know accrual accounting is coming in. You know the fact that each ministry had that cowed. So, what is the bigger picture?”* (CC1). From document reviews, there were also no discussions at any level about the connection between accrual accounting and budgeting as instructed by the Circular 4/2013. Without this, they perceive that the accounting reform occurs in isolation from budgeting and other public finance reforms. Together, all of these have consequently complicate the internalisation at organisational level.

Besides that, the evidence revealed that the high power distance has played a dominant role in determining the strategy of the reform. The dominant behaviour was evident in the group of top management in their relationship with their subordinate. For example, during the interview one of the top management at AGD highlighted, *“We’ve provided you everything. The accounting personnel on the ground just have to follow the instruction only* (PC 1). Admitting the superiority of the top management, one of the accountants commented,

“You know, when the top management made a decision for a big bang approach, I just agree without further argument. I’m just a normal accountant. Although most of the accountants prefer a gradual approach similar to France and UK, they didn’t dare to suggest. They just try to do it. But now, when everything has gone haywire the top management switch their earlier decision, and finally we’re the one who has to deal with all the complications” (PC 9).

The statements indicated that because of the inequality in power, all accounting personnel had to comply with the instructions given by top management at AGD, regardless of its applicability and suitability in actual circumstances. Therefore, the research found that whilst the accounting personnel tried to fully rely on the rules developed at AGD as a basis of their action, the non-accounting personnel expressed their dissatisfaction on the reform strategy firmly, and challenged the policy made by AGD openly. The autocratic decision-making made it hard for the reform actors to negotiate and suggest alternative regulations that could be aligned with the old logics and resolve the conflict among the organisational actors. This has significantly affected the process of embedding the new regulations into the existing management practices.

With the weaknesses in reform strategy, the unclear mechanism and relatively high power distance culture, the radical adoption of private sector's value to replace the long tradition of societal norm for better efficiency in PFM, hardly worked at all. Despite the strategy and the new regulations imposed by the field level, the majority of reform actors faced difficulty in changing the previous financial reporting and management practices. When these remain unchanged, it caused the reform actors to not responding according to the way the new logics should function. There was a major conflict among the actors, hence distorting the quality of government financial data. Discussing this issue, the auditors from the two organisations commented that,

"I didn't feel any changes just yet. The data that we've are unreliable and inaccurate, as they just want to comply with AGD's requirement. It takes time for Accounts Division to rectify this" (PMB 5).

"Such a waste for the government. Finally, there are many problems that we faced in verifying the accuracy of the accrual-based opening balances. Unsupported, unrecorded and sometimes outdated. Is it from this we want to make a decision from?" (PMC 7).

Both internal auditors are frustrated in auditing the data collected for opening balances. The review on the Internal Audit Report for three case

studies and the overall report prepared by the consultant at national level revealed many discrepancies. Additionally, if the delay in the adoption of certain MPSAS on debt continues, the new financial data will not appropriately reflect the government's financial position. Hence, this indicates that the content of the reform is more idealistic than realistic.

6.3.2.2 Emergence of Accrual Accounting As Political Tool

Besides gradual reform progress, the research also found that rather than functioning as a management tool, accrual accounting has become a political tool in the MPS environment. As highlighted in Section 5.3.2.1 and 6.2, the process of endorsement of public bills and approval of new regulation including IPSAS are heavily influenced by political power. After the application of the new accounting regulation, the data presented to the top management and political decision maker on overall financial position was far below their expectation. Commenting on the government's financial position presented during that time, an officer at the MoF remarked,

“The figure was not very good, not in favour of the current government. It shows that you have a negative position with so many wastes. We're losing a lot of money and if in the private sector, we're not a profitable company. The money and all the investment have not been well-managed” (U3).

The above statement proved that MoF was aware of the seriousness of government financial condition if the private sector's performance evaluation's rules were applied to the simulation figures. Although the main purpose of the government is not profitability, in the unstable political climate, the opponent party may use this information for a different purpose that could jeopardise the ruling party's position. Thus, many actors viewed that it was quite risky for the government to disclose all the financial information to the public. This had waveringly affected the politician's initial decision on accrual accounting.

The above scenario provided a strong reason for the government to postpone full accrual accounting implementation. Also, there was deferment on the application of several regulations related to disclosure

of liability. This would result in an impartial disclosure that may jeopardise the initiative to improve the efficiency in PFM in the future. Yet, the bureaucrats had to agree with political decisions and consequently had to do the frequent shifts in the main strategy. There was an active departure from institutional beliefs and thus, the reform actors started to question on what constitutes the effective PFM for developing countries, and the government's actual intention in conducting this reform; whether it is for legitimacy or efficiency? As of now, the outcome of this transition could only be an evidence of ceremonial reform introduced to support their particular political positions and to show legitimacy in the public sector arena.

6.4 SUMMARY

Results revealed that the patterns indicating the emergence of efficiency logic at the organisational field has provided a form of legitimations in the achievement of developed nations' status. Ideally, organisational actor must internalise the whole principle of new efficiency logic for institutionalisation to be complete. However, in reality, the objective and the means to achieve efficiency are conflicting and far from being conformed entirely. The organisations encountered inconsistencies between institutional expectations and internal objectives resulting from inadequate prescriptions of the new accounting regulations to cater to the specific attribute of public organisations and the Malaysian NPFM framework. Moreover, there was an absence of political support, limited capacity for action, unsupported power dependency, conflicting interests and competitive commitment shown by the reform actors on accrual accounting.

Consequently, the reform has begun to produce a glaring inconsistency between the declared purpose and actual content. While it may be claimed that accrual accounting serves efficiency logic, there is no evidence at the field level that suggests they have been developed for this purpose. Instead, the data reflected the unexpected shift in the core function of accrual accounting from management tools to political tools. The organisational actors experienced substantial difficulties in producing reliable new accounting information, while the central agency has engaged in "window dressing" by choosing partial accounting disclosure, which undermine public transparency and accountability, thus making it a rather ceremonial endeavour. There is a great deal of uncertainty, and the modified-cash based remains a priority for the government and yet, the implementation of accrual accounting is still crucial for the future. This leads

this research to conclude that to change the long-established governmental practices into a new one within a short timeframe is a complicated process.

CHAPTER 7

DISCUSSION OF FINDINGS

7.1 INTRODUCTION

Pursuant to the research findings presented in the previous two chapters, this chapter now offers a broader discussion on the key findings and theoretical interpretations in addressing the three research questions presented at the beginning of the thesis:

Question 1: What are the expectations of users of accounting information with regard to the value of accrual accounting in the Malaysian government?

Question 2: How do different public sector organisations manage and respond to the process of transition from modified-cash accounting to accrual accounting?

Question 3: What lessons can be learned from the Malaysian experience regarding the value of accrual accounting adoption in the public sector?

This chapter is arranged into three different sections. First, Section 7.2 focuses on the origins of the two logics and explains how the different demands on these logics are connected at the field level. What appears to be the case is the conflicts that occur in fulfilling those demands and in achieving objectives through the means of the efficiency logic. In particular, the 'Image boost', as the most conflicted theme, contradicts with other institutional demands on managerial principles, hence, leading to institutional complexity. Secondly, the responses given by the reform actors at organisational levels are summarised in Section 7.3. The research found that the three public organisations experience the reform differently, and in turn, mobilise distinctive responses. They resort to either the compromise or avoidance strategy as alternatives to conformity to institutional requirements. Section 7.4 summarises the value of accrual accounting after the institutionalisation process. At this moment, there is a delay in the full adoption of accrual accounting in the MPS and this leads to the coexistence of modified-cash accounting and accrual accounting information, both carrying a different set of logics without any one of them being dominant. Moreover, the temporary dissolution of the hybrid accounting approach seems to be strongly influenced by a political preference. This implies the diminishing value of accrual accounting in the MPS and that the choices of accounting approach in PFM

are politically biased. The political bias, unfortunately, remains a huge obstacle in achieving a more transparent reporting and efficient government.

7.2 THE ORIGINS OF MULTIPLE CONFLICTING DEMANDS

Previous research suggested that the process of institutionalisation is activated when a new logic destabilises existing practices and introduces a new ideal into the organisation field (Dambrin, Lambert and Sponem, 2007). The logics of a NPM model, as applied by some developed countries such as New Zealand, US and UK, have challenged the favourable notion of social welfare logic, and effectuated efficiency logic, which champions accrual accounting practice over modified cash basis (Lapsley, Mussari and Paulsson, 2009; Pollanen and Lapointe, 2012). Tempted by the allurements of the NPM solutions as suggested by the NEAC, the Malaysian government asserted that the country needed to adopt accrual accounting to relieve them of their responsibilities in PFM and strengthen the economic position. These intentions are similar to the early reformers' claim, in which the attempt to align financial reporting, budgets and legislative appropriations together was meant to induce positive behavioural changes in the governmental decision-making process (Likierman, 2003; Ball, 2012).

While the MoF and AGD impose on all public organisations common managerial principles associated with new logics through the new accounting rules, financial management techniques and normative prescriptions, the interviews, however, reveal various, but not surprising, social expectations. As summarised in **Figure 9**, the research found that the involvement of multiple potential users and decision makers in a new governmental financial management framework of the MPS engenders five diverging institutional demands. As highlighted by one participant, *"The new information produced by accrual accounting may fulfil one's needs but can harm others. It depends on the individual's agenda"* (PMA 3). Some users associated their demand with efficiency logic embedded in the managerial principles, as promoted at the field level. For example, budgeting officers and finance managers concentrate on cost-effectiveness and accountability, auditors emphasise on accuracy, and the PAC focuses on transparency. Meanwhile, such idealism appears to be in contrast with the demand on 'image boost' intention displayed by politicians. This incongruous institutional demand subsequently leads to a confrontation in policy formulation and internalisation process.

Further examination reveals that the sources of confrontation between the logics come from two critical areas: the goals and means of the reform. On the conflicts over

goals, the data, as summarised in **Appendix G**, indicates that the aim of efficiency logic in maximising the public services performance at minimal costs through accrual accounting initiative is undermined by the traditional role of public organisation in the MPS. Unlike developed countries such as the UK and Australia, the Malaysian government is currently involved in developing many basic physical infrastructures such as road, airport and hospital for social wellbeing purposes. Additionally, regardless of the ability to generate future economic benefit, the government's involvement in preserving the national heritage assets and tourist attractions is essential for the sustainability of social capital. Given that most of these activities require an enormous capital investment, it seems challenging for the policy makers to quickly change their perceptions, beliefs and values in designing effective support programmes and modifying existing budgeting strategies to provide better services at a lower cost.

The research realises that many participants reject the conceptualisation of cost reduction in managing the resources and instead prioritise the need for all the expenditure to uphold their social, cultural and educative roles. This is vital in ensuring that the development⁵⁸ agenda continues for the future generations. The key actors thus expressed opposing views regarding the accounting approach that can best serve the goal of public organisations. This conflicting scenario is not an isolated case, as it is consistent with the argument made by previous literature on the role of accrual accounting which is incompatible with the primary role of the government in providing public goods or services (Guthrie, 1998; Ellwood and Newberry, 2007) and the fundamental purpose of governmental accounting, which is the protection of public fund (Pallot, 1992; Chan, 2003).

The conflict also appears over the means on achieving new goals that contradict the traditional social welfare logic in three main areas. First, from the analysis in **Appendix G**, the four institutional demands that characterise the efficiency logic demonstrate distinct institutional identities and hold a different set of practices from the social welfare logic. In managing financial resources under the social welfare logic, traditionally, the cash transaction will be compared to the budget approved by the parliament to ensure the expenditure is per the Act, rules and applicable legal provisions. Given the limited information in the previous approach, many potential users associate the old logics with inaccuracy, opacity, inefficiency and bureaucracy. By extending the current financial report to include assets and future commitments,

⁵⁸ In this case, the development is not restricted to economic growth but to include literacy improvement, longer life expectancy, better employment, social and environmental condition.

the top management at lead agencies envisage the new sets of accounting information would reflect more accurately the government's position that enhances transparency, and would result in a better decision for cost effectiveness and greater accountability. However, despite the claims made by the government, the policy documentation shows that it did not change its budgeting basis to accruals. Instead, it maintains the use of a cash-based budgeting system. There is also no detailed discussion and no solid mechanism for the application of accrual accounting information in the budgeting process. To support this contention, several budgeting officers in the interviews highlighted that the new set of information is irrelevant as they still need to refer to the modified-cash accounting report for resource allocation.

Secondly, there is substantial evidence that the intention to implement accrual accounting is strongly driven by political forces, bringing a particular form of institutional complexity into the institutionalisation process at the field and organisational levels. As highlighted in Section 6.2, many field-level actors in the interviews suggest that due to political instability, the highest political stakeholders demand accrual accounting to support their personal 'image boost' intention. This demand requires the lead agencies to ensure that the new government's financial information favourably supports the ruling party's political position if they want accrual accounting to stay relevant in the MPS. By granting the ultimate power to politicians to decide on the full implementation of the reform, many reform actors contend that this provides an opportunity for the politicians to exercise their discretion by prioritising the 'image boost' demands. Meanwhile, that prioritisation will undermine other principles associated with efficiency logic that are strongly demanded by public managers and PAC. Earlier, Pollanen and Lapointe (2012), described a similar situation in the accrual accounting reform process in Canada, in which they found that rather than pursuing public interest, politicians will pursue their own self-interest. Therefore, the evidence indicates that there is a tension between the official intention of the introduction of accrual accounting and the expectation of 'image boost' as demanded by the politicians.

Thirdly, based on the analysis of the semi-structured interviews and the content of the relevant public documentation, the challenging tensions between multiple demands from the efficiency logic and the inherent attribute of the public organisation appear to exist at the organisational level. Regarding this, Watkins and Arrington (2007) suggested that the practical operation of NPFM approach, including accrual accounting, is often mismatched with the existing political philosophies in many countries. However, the conflict instigated by political intention and the effects of

political reality on accrual accounting transition processes have not been extensively discussed in earlier PSAR literature (Ellwood and Newberry, 2007; Lapsley, Mussari and Paulsson, 2009). Hence, the next section will explore how the field and organisations respond when influential stakeholders hold contrasting views on the appropriate course of action in transforming accounting and PFM practice, while retaining their traditional roles in the MPS.

7.3 RESPONSES TO INSTITUTIONAL COMPLEXITY

As postulated by Greenwood et al. (2011), the characteristics of individual organisations and the intra-organisational dynamics will shape its responses to institutional complexity. By applying that analytical concept on the data gained in this research, this section will discuss how the organisational actors manage the competing institutional forces and its interplay with the new structures and mechanisms within the organisation. Prior to this stage, the field-level actors have arranged for a formal structuring, with highly centralised reform strategy, to be operated in a high 'fragmented'⁵⁹ environment. In principle, this is consistent with the Anglo-Saxon top-down approach as described by Pollitt and Bouckear (2004), whereby the government set up the overall reform strategy and standardised new technique and enforcement mechanism at the field level before passing the responsibility to implement such strategy and techniques to each organisation. In the MPS, a new technique covering the accounting system, chart of account and uniformed rules, is prepared according to their interpretation of the requirements stated by IPSASs, and adjusted to the new ideals promoted by the highest political level. Although IPSASs are formulated by international bodies based on the business logic that received many critiques and unresolved issues (Christiaens and Rommel, 2008), the FGoM attempts to adopt the requirement as strictly as they can. The intention of this strategy is to minimise discretion and to control the variation in practice among the federal organisations. The remaining paragraph will elaborate on how the new techniques affect the organisation's responses and the whole institutionalisation process.

7.3.1 Organisations' Responses

A critical distinguishing feature of accrual accounting is its emphasis on the reporting of assets and liabilities in governmental financial report. Thus, an

⁵⁹ Greenwood et al. (2011, p. 337) refers to fragmentation as the level of 'uncoordinated constituents upon which an organisation is dependent for legitimacy or material resources'.

effort to internalise accrual accounting approach through the change management activities and the data collection for assets and liabilities opening balances at each federal organisation would be a necessity. By comparing the responses given by three ministries to such activities, the research found that the pressures arising from institutional complexity do not affect them equally and each organisation responds in varied ways to the demands imposed by the same new institutional logics. From five different types of strategic responses proposed by Oliver (1991), the research identifies two types of responses displayed by three ministries: MinA adopts avoidance strategy with concealing tactics, MinB implements compromise with bargaining tactics and MinC employs compromise with balancing tactics. Closer examination on the variability in the organisations' responses to institutionalisation process reveals the influence of the relationship between eleven themes as demonstrated in **Figure 8**. From that model, "receptivity" as the final theme in this research accounts for the strategic responses displayed by the three public organisations. The next section will elaborate on this further.

7.3.1.1 MinA: Avoidance Strategy

Overall, the research found that MinA utilises avoidance with concealment tactics as its response to the new accounting practices. Besides the complexity occurring at field level, MinA, as one of the two technical agencies in the MPS, faces major challenges in managing the reform process, as diverse community ranging from engineers, architects and quantity surveyors make up its organisational structure. From the interviews, every profession highlights a different set of interests, values and beliefs. The research found that their core responsibility and internal guideline in managing the organisation's resources deviate from the value promoted in efficiency logic. Furthermore, the organisation has a branch in every state which is governed by state's rules that differ from and may overrule the federal regulation. Due to the differences in technical core and regulation, the technical experts have difficulties in understanding and appreciating the accrual accounting requirement.

Such problem is obvious on the issue of valuation and depreciation on infrastructure asset. In this reform, the organisational actors should

measure the value of public infrastructure including roads and bridges in line with IPSAS requirements. The engineers contend that the value of such assets should be prepared according to technical calculation, while the accountants prefer to use historical information as recorded in the previous financial report. Many argue that historical data is irrelevant for contemporary decision-making purposes and the concept of straight-line depreciation does not reflect actual consumption and technical maintenance procedure for infrastructure asset. However, both valuation approaches are different from the IPSAS's requirement and the figures produced are still debatable and unreliable. This has invited scepticism amongst many technical experts, which makes it harder for the detailed prescriptions of accrual accounting to be accepted and applied by them.

Consistent with the findings in many other governments, prior research highlighted that the high degree of conflict and long-standing critique surrounding the policy on infrastructure asset leave considerable discretion to reform actors that may lead to major difficulty (Barton, 2009; Lapsley, Mussari and Paulsson, 2009). In particular, the controversy of this rule has misaligned the interest and commitment among a different group of actors, thus causing an internal conflict (Carnegei and West, 1997; Walker et al., 2004). In this organisation, the majority of the non-accounting personnel, especially the technical experts, openly argue with accounting personnel due to their different views on valuation and depreciation concept. Without solid justification from the consultant and accounting personnel, these non-accounting personnel are quite reluctant to implement the reform activities. Surprisingly, this is restricted to not only the non-accounting personnel. The data also shows that some accounting personnel try to avoid committing to the reform activities. They only prepare minimal training sessions for selected groups of actors, and are reluctant to implement any verification on the data of moveable assets as instructed by the central agencies. Their non-committal attitude leads to the failure to enhance the understanding on accrual accounting, and to nurture an interest in efficiency logic's requirement among other reform actors, especially at the RC.

Despite the lack of understanding, interest and commitment to efficiency logic, the dominant group of technical experts and administrative officers, become most potent and influential in making a managerial

decision due to a limited number of accounting personnel. They prioritise their original job scope and ignore the requirement of the new rules, especially those related to infrastructure assets and information gathering for a massive number of assets scattered all over the country. Moreover, rather than complying with accrual accounting requirement, they influence other actors to maintain the previous management and accounting practice; a practice incompatible with the new efficiency rules.

As the instruction on the reform comes from the MoF, which holds the ultimate power in determining the financial allocation for every federal organisation, MinA tries to comply with some of the reform's requirement. Being a resource-rich organisation requiring a large amount of money for development, maintenance and upgrading of physical infrastructure, they cannot oppose the institutional demands on new management tools in order to secure an access to the fund. Hence, in the middle of the reform process, the new top management slowly tries to influence the interest of some organisational actors to switch their pattern of commitment on the changes process from 'status quo' to 'competitive' commitment. Therefore, the data presented in Section 6.1.1 indicates that the organisation changes its response in managing the complexity from defiance strategy, in which the actors overtly challenge the efficiency logic requirement, to a more passive resistance.

However, as the majority of organisational actors still prefer the prevailing institutionalised template-in-use, the evidence shows that the organisation finally settles with the avoidance strategy and concealment tactics. They rhetorically adopted a new practice in order to minimise the economic and social penalties. Within a limited time, the technical specialist and the asset managers compiled the information on assets according to the data available in the asset management system without actually understanding the detailed requirement of the new practices. They also try to put an effort to appropriately manage the function of the asset management system, although unfortunately, this is not part of their routine. Subsequently, the auditors revealed many discrepancies in the accumulated data as the information in the existing systems are not properly updated and supported. Responding to this issue in the

interview, they tried to conceal this nonconformity by highlighting various problems including the weaknesses in previous asset management. Ironically, they suggested an elaborate rational plan to improve this condition, yet without any intention to implement them.

As a result, the evidence shows that the accumulated figures for assets and liabilities of this organisation are inaccurately presented, particularly for moveable asset. Furthermore, there are extraordinary variations in the organisation's financial position as the problem on the value of physical infrastructures is still unresolved to date. These findings support the claim made by Walker, Clarke and Dean (2000) that none of the alternatives determined so far could enhance the reliability, relevance and comparability of infrastructure asset's information. Rather than improving the quality of financial information, controversial rules and complex organisational structures further undermined the capability of accrual accounting in supporting efficiency logic in this organisation. Although reform requires substantial effort from organisational actors, the results ultimately prove that it only generates insignificant positive effect on the organisation.

7.3.1.2 MinB: Compromise Strategy

In dealing with multiple institutional demands from accrual accounting, the evidence indicates that MinB adopts the compromise with bargaining tactics. The responses from organisational actors explain why the organisation manages the field-level pressure according to their alignment with organisational identity, its structure and position in the MPS field. Regarding identity, the research found that the attempt to internalise accrual accounting into organisational practice is challenging due to the incompatibility of the aim and means of efficiency logic with the organisation's particular characteristics. As the one and only organisation promoting Malaysian tourism and managing Malaysian arts, culture and heritage, regardless of the ability to generate revenue, they are responsible for maintaining tourist attraction areas, hosting cultural events, providing cultural and historical knowledge, and indefinitely preserving national cultural collections. Hence, the particular social function and dominant identity of the non-profit model upheld by MinB impose a glaring fundamental conflict.

During the process of data collection, the ministry realises that the new policy and regulations governing the governmental reporting and financial management emphasise on economic values. Historians, however, argue that the economic values for most of the cultural collections cannot be measured in financial terms reliably, as there are usually no markets for such collections. There is not even an acquisition cost for some of the collections, such as manuscripts and skeleton, as they are secured either as gift or through discovery activities. In more extreme cases, some artefacts existed even before the establishment of the Malaysian government. Due to its historical and cultural importance, the government faces restriction to resell this item, hence, the value is believed to increase throughout time (Carnegei and Wolnizer, 1999). Yet, for the purpose of accrual accounting, the Malaysian government has decided that if the purchase cost is unknown, the item will be measured at a nominal value - RM1 (equivalent to GBP5.5).

Moreover, under the new rules, cultural collections not listed under the National Heritage Act 2005 will be treated as an average asset, in which its value is subject to depreciation charge. The top management of MinB and the curators disagree with that decision, and they try to negotiate with the AGD by proposing alternative procedures to value and classify these cultural collections. The AGD, nevertheless, appears to ignore any negotiation on the new rules as they rely strongly on the IPSAS 17's requirement. Considering the heated, yet unresolved argument on the content of IPSAS 17 on cultural collection, especially for monetary valuation among previous PSAR's scholar (Aversano and Christiaens, 2014) and accounting practitioners in the MPS, this consequently prolongs the reform process.

Besides realising a strong identity, the research found that the frequent reshuffling on the organisation's structure and position in the field also influence the actor's response. Since MinB only recently expanded its function and established its Accounting Department, the accounting personnel need a longer time to understand the overall nature of the organisation's operation before they can apply the new accounting rules accordingly. Moreover, as a 'peripheral organisation' which relatively has smaller size and limited resources before, the top management still

prefers their original set of logics as they foresee that the application of efficiency logic, which emphasises on cost effectiveness and accountability, will most likely put them in jeopardy. Assets preservation and the hosting of major tourism events often incur enormous cost, whilst the income generated from these activities is very minimal and relies heavily on many other factors. Furthermore, the value of its cultural collections could not be determined objectively, and some of them are likely to be valued at a mere RM1 each. Hence, the financial position of this organisation, as reflected through accrual accounting approach, appears monetarily unhealthy. If the principle of financial accountability is narrowly applied in this circumstance, they believe that this would inevitably impair the credibility of the top management in managing the organisation's fund. In this case, the research agrees with Carnegie and West's (1996, p. 87) view that 'advocacy to put accounting where it does not fit the prevailing organisational context is essentially misguided'.

Combining the conflicting demand of the objectives of the organisation and the goals of efficiency logic, along with the ambiguous aspect of the new policy on cultural collections and the unfavourable financial status, these factors discourage many organisational actors to continue implementing accrual accounting activities. Once the new accounting rules are applied, the organisation starts to witness mixed interests and competitive commitment from different groups of actors. The small number of accounting personnel and auditors try to give full cooperation in preparing the transformation task, while a greater number of other group of actors including the top management, curators and librarians still prefer the previous template. For the purpose of satisfying the institutional expectations imposed by lead agencies, they try to compromise on the compliance of certain new regulations so as to preserve their strong identity. Consequently, although the record states that the organisation managed to meet the minimum requirement of reform activities as determined by central levels, the data produced by accrual accounting approach is unreliable and does not reflect the actual financial position of the organisation, thus requiring greater scrutiny from the lead agency that prescribes such practice.

In this case, the result supports the argument made earlier by Carnegei and Wolnizer (1999) that the impossibility of quantifying non-monetary nature of cultural collections in monetary terms has a self-destructive impact. It demonstrates that the conflicting logics resulting from the strong identity and the recent changes in the organisational structures give rise to complex situation that intensifies the argument among field level actors, organisational actors and consultants. With the intense pressure from the field to pursue efficiency logic within a limited time, the organisation, therefore, achieve partial conformity on efficiency logic's requirement by giving a symbolic commitment to reform activities.

7.3.1.3 MinC: Compromise Strategy

In contrast to the responses shown by the earlier two organisations, MinC appears to be successful in managing various institutional demands on the new accounting approach by employing compromise response with balancing tactics. This type of response is apparent in the active participation shown by a different group of actors in many areas of the reform. In particular, the Account Division put continuous effort in developing the capacity of its reform actors via intensive training held at different levels of the organisation. For more effective training approach as compared to other organisations, the Account Division modifies the content of standardised training syllabus consistent with the operational activity and assets held by the organisation. Moreover, both the Account Division and Internal Audit Unit thoroughly verify the data gained by asset managers based on the audit procedures that they have revised in line with audit risk and their past experiences in dealing with accrual accounting. Some of the discrepancies raised by the auditors are reviewed and rectified by the asset officers, with close supervision from the Account Division. With this response, the organisation appears to conform to the new institutional rules, values and beliefs, thus allowing accrual accounting to replace the old organisational practices in a convergent way.

One interesting finding, in this case, is that the organisation's characteristic that is compatible with efficiency logic's principles, incites a keen interest that consequently leads to reformative commitment among the majority of its reform actors. Being the 'centrally located

organisations' with a large organisational hierarchy responsible in overseeing the transportation activities all over Malaysia, MinC is given a substantial financial allocation, especially under the recent Eleventh Malaysia Plan. It also receives high expectation from the central level to generate a higher income for the government. Moreover, as the organisation responsible for managing the airports, ports and various types of transportation license, it possesses the latest infrastructure, assets and vehicles. The original cost and market value of this type of assets can be easily determined. With more assets and higher accrual revenue, the top management sees the opportunities in applying the new reporting basis to disclose a healthy financial standing. They presume that the application of efficiency logic's principles, especially financial accountability, can potentially elevate the organisation's status.

Besides the organisation's characteristics, the compromise response is also influenced by the top management and the CA; whose have a broad experience on the practical application of accrual accounting and NPM technique. The interviews reveal that all of them are exposed to the critical value of accrual accounting approach, in supporting efficiency logic, during their previous employment. Their familiarity, thus, accords them with sufficient knowledge and skills to appropriately manage their resources, including to guide, monitor and control the action of social participants in implementing the reform activities. Moreover, MinC has six agencies, including port authority bodies and railroad-corporation, which partially play the role of an enterprise and already use accrual accounting in a commercial environment. Due to a closer relationship with the central agencies and its own agencies, from which they learn the appropriate NPFM reform behaviours, the top management becomes more aware on how to balance institutional expectations as compared to other organisations. This provides them with a good foundation to give their full support and commitment that encourage others to embrace the efficiency logic's practices. Therefore, although the organisation deals with many complexities, they try to find an alternative solution to mitigate the tension internally, except for issues requiring further technical consideration from the AGD.

The above situation indicates that some characteristics of this organisation provide an advantage to the organisational actors to apply

accrual accounting practices in a typical governmental context. Unlike the earlier two organisations focusing on providing public social services with limited earning of its own fund, the research found that this organisation's characteristics resemble those of businesses. License is issued individually per application in an exchange transaction, and the user of facility infrastructures, such as port and airport, will need to pay for certain charges. With direct causal relationship between measurable input and output, such activities can be managed as if they are a business organisation, in which they could objectively prioritise effectiveness as demanded by the customers, instead of social responsibility per se. This is aligned with the means of efficiency logic, in which accrual accounting acts as a powerful management tool. Therefore, efficiency logic become relevant to the organisation and it is easier to get the reform actors convinced and agreed on shifting to accrual accounting.

By reviewing their progress after several years of reform and communicating with the key actors in this organisation, accrual accounting gradually gains its merit among organisational actors. Although many prior studies found that accrual accounting is not suitable for government (Guthrie, 1998; Robb and Newberry, 2007), this result ultimately supports the suggestion given by Christiaens and Rommel, (2008, p. 61) that "accrual accounting reform appear to be more accepted and successful in those government or department that conduct rather business-like activities".

7.3.2 Overall Responses

This research found that, generally, the reform mechanisms developed for efficiency logic through a highly-centralised strategy creates intense conflict and an unintended effect defying the original expectation. This is especially evident in MinA and MinB, where 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, as it is prepared without active interaction and significant input from the organisational actors. 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. They start to query on what is considered to be appropriate and necessary to their organisations, especially when the complicated estimation and measurement process requires more time and extra effort from them. Although such issue is frequently raised, 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 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.

From the above discussion, the research found that the field level actors prioritise all principles supporting the efficiency logic, without realising the importance of social wellbeing logics to be retained at an organisational level. This reflect the suggestions made by Pache and Santos (2010) and Greenwood et al. (2011) on the need of an analytical framework to understand the relationship between institutional complexity and organisational response. In this situation, the organisational actors use their own discretion to play an influential role in the selection of conformance strategies. This produces different organisational responses, forcing an inhibition of radical changes at the field level. Although the likelihood of compliance with institutional norms and requirement are believed to be high for access to vital resources (DiMaggio and Powell, 1991; Oliver, 1991), in this research, some organisations show their resistance. Moreover, Greenwood and Hinings (1996, p. 1040), proposed that “radical change will not occur without a sufficient enabling capacity for action combined with either a reformative or competitive pattern of value commitments”. The interplay between the adverse effects of limited human resources, multiple interests and competitive commitment among the different group of actors, results in the three federal organisations’ responses falling far below the expectations. None of the ministries manage to furnish a complete and reliable data on assets and liabilities opening balances within the stipulated time. Similar to the Indonesian public sector, there is a reduction in the quality of financial data and this unexpected outcome is not unusual, especially for developing

countries whereby the issue of institutional capacity is common (Harun, Peurseem and Eggleton, 2015). This limitation consequently leads to inappropriate situation and uncertainty in the MPS.

Due to the above condition, this research found a disparity between financial position and heterogeneity in the reform progress among the organisations. Since the identification and valuation process for some assets is relatively more complex than others, some organisations record a relatively lower value of assets as compared to other organisations. Additionally, some organisations generate little revenue as compared to the expenses utilised, and their output is difficult to be measured objectively. With the introduction of performance measurement based on the financial indicator reported by each organisation, the top management of the three ministries begin to express their concern on the importance of displaying better financial information of their organisations. The application of the new efficiency logic' principles on accumulated financial data reveals the organisation's weaknesses in managing its assets and financial resources. In contrast, the accounting personnel are given a mandate to consistently apply the new accounting regulation prescribed by AGD, which is not easily challenged or negotiable, to accurately reflect the organisation's financial position. Consequently, the coexistence of two competing logics favoured by different organisational groups lead to the emergence of internal tensions that further complicate the changes initiative.

7.4 THE VALUE OF ACCRUAL ACCOUNTING IN THE MPS

Building upon the analysis on the responses to the reform process, this research proceeds to identify the value of accrual accounting in the MPS environment. On the basis of previous research, one would expect that over the years of embedding the accrual accounting approach, the efficiency logic practices would become strengthened and progressively gain dominance over the social welfare logic. Surprisingly, available evidence suggests that accrual accounting fails to gain its value in the MPS context, as there are many disputes over institutional prescription that complicates the reform process. The new accounting rules and the existing PFM policy undermines the value of having accrual accounting in governmental financial reporting, especially on transparency and accuracy. The following observations illustrate this scenario.

Although the government intend to achieve a developed nation status by having more comprehensive information for decision-making purposes, the data reveals a shift in the core function of accrual accounting from management tools to becoming a political tool. At the field level, the current governmental financial position is not in favour with the ruling political party's position. Particularly, the consolidated amount reported for public debt exceeds the government's self-imposed rules. Furthermore, the ambiguity of some accrual accounting rules and the progress of the development of this highly-integrated new accounting system, which should accelerate the reporting process, is far behind the original schedule. Meanwhile, what transpires at the organisation level appears to be an intense conflict and unreliable accumulated data. If the Malaysian government persists with the original plan, they need to utilise the unstable accounting system with unhealthy and inaccurate opening balances by 1 January 2015. The application of efficiency logic' principles imposes significant risks, thus diminishing the commitment and interest among the top management at both field and organisational levels. The public managers, PAC and top decision makers, therefore, disagree on how the financial reporting should be organised. With a weak financial position and unstable political situation, combined with the Malaysian culture, where power distance is the highest in the world (Hofstede, 2001), it is no longer feasible to adopt a more transparent approach in the government's financial record and management decision procedures.

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. They prioritise the 'image boost' demand by prolonging the coexistence of modified-cash basis and accrual accounting. 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. However, the significant delay in enforcing the full application of accrual accounting could feed the growing scepticism amongst the reform actors, leading to the loss of institutional support on the efficiency logic in a long run (Hyndman and Connolly, 2011). In the MPS, federal politicians and several public managers seem to lose interest in the initial value advanced on efficiency logic' principles. This in turn effectuates an additional challenge to the lead agency to continuously convince the reform actors of the need for change.

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, concessions and pension liabilities with significant value still remain hidden, whereas all the assets will be reported ala accrual basis. Hence, there is disparity in the disclosures treatment; the debt is understated and the assets are overstated. This manipulative approach could increase the possibility of information asymmetry. According to Ellwood and Newberry, (2007), information asymmetry can give the bureaucrats enormous power, while the public and parliamentarian will lose control as they only assess partial information as that presented in cash basis. 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.

Furthermore, the Malaysian government decides to selectively apply accrual accounting reporting approach in different areas of PFM practices. They retain the budgeting preparation in cash basis, while the external reporting is done in modified-accrual approach. There is also no clear relationship between accounting and performance evaluation. In contrast, in New Zealand and the United Kingdom, the accrual accounting basis is used in financial reporting, budgeting and performance management. According to Pollanen and Lapointe (2012), such dual reporting system will discourage the reform actors to produce accrual accounting information as the potential benefit is restricted by an unclear mechanism. It will also consume higher cost and present higher risk, precipitating further tensions. Together, this devalues the contribution of accrual accounting in support of efficiency logic in the future.

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. Rather than assisting and elucidating, accrual accounting obscures financial information. The strong power of political decision makers consequently diverts the initial intention of the government in achieving the aim of efficiency logic.

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.

7.5 SUMMARY

This chapter has discussed the findings of the research on the complexity of the institutionalisation of accrual accounting in the MPS. By adopting the critical realism perspective and institutional theory in the field of public sector accounting, it enables the research to examine the 'institutional complexity and organisational responses', and to reflect how the results of this research reaffirms the work by Greenwood et al. (2011). In this thesis, the reform in governmental accounting is used as an illustration of the institutional changes practices, which witnessed the transition from a modified-based accounting to accrual accounting as an instrument to pursue efficiency logic in handling PFM. However, the evidence shows that its practical operations during the period of 2011 to 2015 seem contradictory to the ruling Malaysian government's PFM traditions and existing political philosophies.

The complexity begins when the reform actors need to deal with multiple demands from various potential users of governmental financial information. It appears clearer in top-down approach, where the field vigorously attempts to homogenise the reform

strategies and the new accounting practices across the federal government's organisations. This leaves the organisational actors with a very limited opportunity to use their professional judgement in making a decision for accounting process, and to prepare for any adjustment on standardised reform activities suitable for the roles of their organisations. The progress of the transformation for every federal organisation, moreover, is restricted by the high power distance in the social structure and the fragile political conditions. Linking the empirical findings from the micro level to the macro level, the efficiency logic seems to have been institutionalised minimally at some managerial part, leading to the duality in these organisations.

In addition to answering the research question, the findings further reaffirm that it is not enough to look at only one level of analysis in understanding how institutional complexity influences the organisation. Therefore, the evidence suggests two important insights: the response to the efficiency logic institutionalisation process is filtered by the unique attributes of the organisations and the collective interaction of intra-organisational dynamics with reform event at the field level. Regarding the attributes, the research discovered the heterogeneous characteristics of public organisation. Specifically, the different positions in the field, the complex hierarchical structure and the disjointed identity, had given some constraints on the organisation to respond adequately to this reform process. The problems, however, are obviously not resolved at the field level.

Besides that, the evidence indicates that the collective interaction of multiple institutional demands with intra-organisational elements brings the three ministries to different arrival points of the changes process. The conflicting institutional logics shape the organisational members' cognitive templates that guide their perceptions on which logics are best employed to achieve the ultimate goal of the organisation. Many actors highlight that the new logic is against their interest and organisation's value that affect their interpretation, expectation and commitment towards the reform (Greenwood and Hinings, 1996). It is also beyond their capacity to cope appropriately with radical changes. Moreover, the power of political ideology substantially determines the receptivity of individual participants. Together, these factors explain why they respond differently as compared to the prescribed instruction, causing considerably large discrepancies between the expectations and the outcomes of accrual accounting in the MPS.

CHAPTER 8

CONCLUSIONS

Overall, the findings in this research show that although accrual accounting manifests its superiority over the conventional system of PFM through NPM's agenda, its implementation in Malaysia marks the beginning of a controversial formal system of managerial practices and cultures influencing both the users and producers of governmental financial information. Since its inception, accrual accounting has attracted criticism from various governmental levels due to its diverse expectations. During the reform, its application is problematic as it often contradicts the inherent characteristics of a public sector environment, thus effectuating heterogeneity in the reform progress among the organisations. Towards the end of the reform process, there is a swing in commitment to the earlier promise that poses considerable challenges to its concept, value and meaning for the government. Finally, whilst public organisations struggling incorporating efficiency logic in the NPFM framework, politicians attempt to minimise the risk of being blamed for their mismanagement of public money through the 'modified-accrual' approach, which is aimed at a better reporting of governmental financial position.

The above scenario is closely aligned to what is discovered in the previously-developed framework of Greenwood et al. (2011), Greenwood and Hinings (1996) and Dambrin, Lambert and Sponem (2007). A strong interest, an adequate capacity for action, and a high and consistent commitment from the reform actors are important to assist the government in manoeuvring the technical quantification in other public managerial practices. This includes the assessment of public services' performance, budgeting and costing in accrual approach, to ensure greater efficiency. Nevertheless, the data extends the previous institutionalisation framework to emphasise the involvement of institutional logics, which are closely bound to the traditional characteristics of the MPS and political will. These two essential elements influence the public organisations' receptiveness to accrual accounting. Therefore, what transpired, is not only a change in governmental technical reporting, but also a change in the role of accrual accounting as a political tool to aid a controversial political agenda. As pointed by Watkins and Arrington (2007), governmental accounting is a powerful rhetorical device employed by politicians to support their positions. Hence, the findings of this research is an example that illustrate how the original intention of using accrual accounting as a vehicle for instilling a culture of

efficiency logic in the public services are buried under an avalanche of politicking. It also shows how good intentions can be subverted when political considerations get the upper hand. Given the present trend and its appeal, the modified-cash basis is unlikely to disappear whereas accrual accounting is likely to sediment in the Malaysian PFM practices in the foreseeable future. This chapter continues with the main contributions as outlined in Section 8.1 and the limitations in Section 8.2. It concludes this thesis by providing suggestions for future research and practices in Sections 8.3 and 8.4 respectively.

8.1 CONTRIBUTION

In summary, the usefulness of this thesis is in its capacity to reveal for the first time the adoption experience of accrual accounting in Malaysia. The reform journey for the Malaysian government began in 2011, and it was planned to be in a radical top-down approach. There has been no detailed examination of its experience, throughout the transition process to date. This research contributes to PSAR literature by revealing a glimpse into the perceived benefits and shortcomings of accrual accounting adoption in the MPS from the perspectives of the user and producer of accounting information at the field and organisational levels. This research also provides an expansion of CR and Institutional Theory in the contextual research of accounting reform by providing insights into the complexity of change processes within the NPFM scenario.

8.1.1 Practical Contribution

As a practical contribution, this thesis attempts to contribute to the development of accrual accounting and application of IPSAS in the public sector, especially in emerging economies. The purpose of the evaluation of the accrual accounting reform is to inform action, enhance policy making, and to apply this knowledge to solve human and societal problems. Timely examination of this initiative is also needed to support the increasing trends in performing and extending PSAR in other countries, which Christiaens, Reyniers and Rolle (2010) explicitly discovered. Although there is no uniform pattern or easily transferable model that fits an individual country's needs, it is worth considering the common pitfalls faced by earlier adopters before their own reform versions are initiated. This is important because PSAR may introduce controversial constitutional, political and social implications demanding serious attention (Robb and Newberry, 2007).

The findings in the MPS reveal various critical internal and external elements as summarised in **Figure 8**, which need specific consideration in the design of the transition strategy, especially in dealing with the controversial regulations on community assets and public debts. Moreover, the outcome of the clashes between expectations and values amongst the key stakeholders is a warning against the radical introduction of accrual accounting in any public sector environment. The findings, as presented above, could be used by potential reformers in their consideration of whether to continue embracing the radical NPM's reform or to avoid such changes that may create even more onerous and intrusive forms of public management. Additionally, this could facilitate the novices of PSAR to enhance their existing policies under appropriately closer scrutiny.

8.1.2 Theoretical Contribution

Regarding theoretical contribution, this thesis contributes to a better understanding of how organisations manage the conflicts when embedded in pluralistic institutional environments, particularly during change processes. Given the increasing prevalence of conflicting institutional demands phenomenon resulting from institutional change in public sector contexts, this research makes important theoretical contributions to the body of work on critical realism and institutional complexity. By applying critical realist perspective, the research helps fill an identifiable gap in current literature and debate on mechanisms and non-conflating model by differentiating between structures and actors' action in social science as advocated by Leca and Nacache (2006) and O'Mahoney and Vincent (2014). Explanation is enhanced through appreciation of the generative mechanisms involves in changes processes that give rise to collaboratively created outcomes contingent upon the behavior enacted by disparate actors interfacing in a given context. Moreover, it demonstrate a sequential analysis of organisational change in the context of public sector that covers a wider range of economic, political and cultural dimensions at field level yet still focusing upon a relatively narrow range of issues at intra-organisational level, such as the organisational attribute and stakeholder participation in determining the root causes of changes experiences.

In relation to institutional complexity, first, this research demonstrates the close relationships between individual actors, organisations and

organisational field that influence the outcome of new practices. This multi-level approach allows the researcher to better understand the phenomenon of institutional complexity and its impact on the organisations' responses discussed by Pache and Santos (2010) and Greenwood et al. (2011). However, the research respectfully differs from Pache and Santos (2010) in which they only focused on the predictive model of organisations' responses that foresees the action based on the nature of demands and intra-organisational representation, without clearly showing the interaction between the field and organisational actors. Given that the field level actors in the MPS receive multiple demands from various users and are responsible for managing institutional pressure at each federal organisation, making their voice heard is critical to this research.

Moreover, the results highlight the collective interaction between institutional demands, the nature of the field and the heterogeneous attributes of organisations, shapes the actors' responses in dealing with institutional complexity that occurred during the transformation process. By taking the effect of various elements of organisational attribute into account, this research approach also departs from that of Kodeih and Greenwood (2014). Rather than concentrating on identity as a primary attribute of organisations and isolating the influence of other elements, this research captures the interaction of the whole organisational attributes together. By doing this, the findings can suggest which element is the most influential in shaping the organisation's response; in that it may offset or multiply the impact of others. Additionally, the longitudinal perspective allows this research to capture the possibility of mobilising some particular strategies from defiance to avoidance, as demonstrated by MinA. The evidence shows that organisations actively adapt to pressures, in order to simulate compliance to the constituents imposed on them. The research argues that this is a significant theme that deserves serious attention, especially when Greenwood et al. (2011) concurred that, studies on the sustainability of organisational response and their alteration and variability across time is being neglected.

Secondly, the research responds to the limited studies on how new practices originate and become established as highlighted by Scott (2001) and Lounsbury and Crumley (2007). By focusing on the earlier stage of practice created with multiple institutional demands, this research expands the understanding of PSAR by offering more nuanced explanations of institutional

change that account for the processes that generate theorisation efforts as well as resultant outcomes. The finding from this research, which captures the period of evolution, suggests that the initial intention and expectation on new logics change throughout time. This is especially apparent when the current progress fails to meet the original expectation, and several adjustments are needed for the means and approaches to be in line with the predetermined goal. It also demonstrates how new kinds of activities emerge, and provides a foundation for the creation of a new practice of a multilevel nature. In this case, these findings reflect Reay and Hining's (2009) suggestion that highlight the importance of studies on the possibility of the emerging dominant logic during the transition period, since this is where the strategies are being developed and adjusted, to push the old logic underground and to move towards sustainability to achieve the new target. This research, therefore, counter-proposes the conclusion made by Pache and Santos (2010), which viewed studies on the potential source of conflicting demands resulting from the transition process as insignificant due to its temporary nature.

Thirdly, the findings of this research satisfy the argument on the possibility of radical change constrained by contextual forces (Greenwood and Hinings, 1996). The research also includes the reciprocal relationship between interests, commitment, power dependency and capacity for action of reform actors at the organisation level that determine the possibility of radical changes initiatives. The data proposes an extension of the model for understanding organisational change, by including the importance of institutional logics in shaping the receptivity of individual and organisation's response towards change processes. This is consistent with Dambrin et al.'s (2007) argument on the involvement of institutional logics as an important mechanism in the institutionalisation process of accrual accounting in the MPS. Moreover, the evidence shows that there are reciprocal relationships between capacity for actions and value commitments, as well as interest and capacity for actions. This is, unfortunately, not highlighted by Greenwood and Hinings (1996) earlier.

Additionally, the substantial involvement of political wills in accommodating the changes requirement at the field and organisational level has shaped the outcome of the reform accordingly. Earlier, Ball (2012) identified politics and the mobilisation of power as central to the change process. According to Ball, political influence could cause conflict or tension in the development of new

practices, resulting in the resistance to the process of accounting change. In this research, the data reveals that politicians have a dominant role in determining the policy for PFM and their particular demand imposes additional conflict to the whole reform process. This research, therefore, finds that it is important to include political will as an important element in studying the changes in public policy especially within the Malaysian context where Hofstede (2001) reported as having the highest power distance as compared to other countries.

8.2 LIMITATIONS OF THE THESIS

The findings of the research, as presented here, are not without limitations. Since the research took place in the early stages of accrual accounting implementation, its conclusion must be regarded as preliminary and contingent. Moreover, the effort to focus on Malaysian government's experience is somewhat limited by its exploratory nature, selected sites within an emerging economy and specific political context. Hence, all the key issues identified should be critically evaluated before they can be generalised or applied to different circumstances.

8.3 SUGGESTION FOR FUTURE STUDIES

As the current condition is potentially useful for the construction and the use of accounting data to influence political outcomes, future research may explore how standard setting procedures in Malaysia support that particular direction. This is a significant omission, given the different political dynamics in public sector environments, as indicated by the data and previous literature including Ellwood and Newberry (2007). Besides that, further research could focus on more comprehensive assessments of the longer-term impact of accrual accounting and its relationship with efficiency logic in Malaysia's PFM. This would be an interesting path considering the reform's current ongoing status. The comparison across jurisdictions, especially among developing countries, is an important next step in assessing the importance of context in influencing the process of institutionalisation of accrual accounting. Such an endeavor would build bridges to the PSAR literature, which explores how public organisations manage the conflicting claims that various constituents have on them, especially when there is an increasing trend of NPFM's adoption among developing countries since the past decades.

8.4 SUGGESTIONS FOR PRACTICES

The researcher wonders what could have been done to improve what turned out to be a somewhat deformed internalisation process. The problems occurring in the MPS seem repetitive, and raise questions about the ability of the government to learn from other governments' experiences, as well as the ignorance of policy makers in the public sector to consider both the pros and cons in academic findings in their policy-making process. Perhaps, rather than radical change, the reform could be implemented in a progressive manner, especially in preparing accounting standards and data management efficiency before the development of a new accounting system. Pilot studies on selected organisations before a full enforcement, and due recognition of diversity present in different organisations, would likely ensure the suitability of the new regulations and the stability of the system. This is aligned with the suggestion made by Leod and Harun (2014) on the importance of prioritising the reform activities in designing the accounting reform plan among the developing countries.

Apart from that, the remaining reform process could be enhanced by the lead agencies, GASAC and even IFAC, by being more responsive in reviewing the existing policy, rules and regulations. This is especially for the transaction unique to public sectors, such as sharing the same resources for different purposes, heritage and infrastructure asset. The involvement of internal technical expert may help to minimise the conflict between accounting regulations and other existing managerial practices. The participation of users from the Budgeting or Fiscal Division for example could provide feedback on the problems and the needs to be addressed by accounting standard, or other detailed guideline clarifying the relationship between accrual accounting information and other PFM process.

Moreover, some participants suggest that the AGD and MoF need to play more active roles than their previous involvement in the buying-in process with politicians and top management at the field and organisational levels. Stronger support from them is crucial, as they are responsible for overseeing governmental financial management, including resources allocation and issuance of relevant circulars. Since instruction and support is given directly by them, this may alleviate the problems faced by organisations in the reform process and encourage the usage of accrual-based accounting information in the near future.

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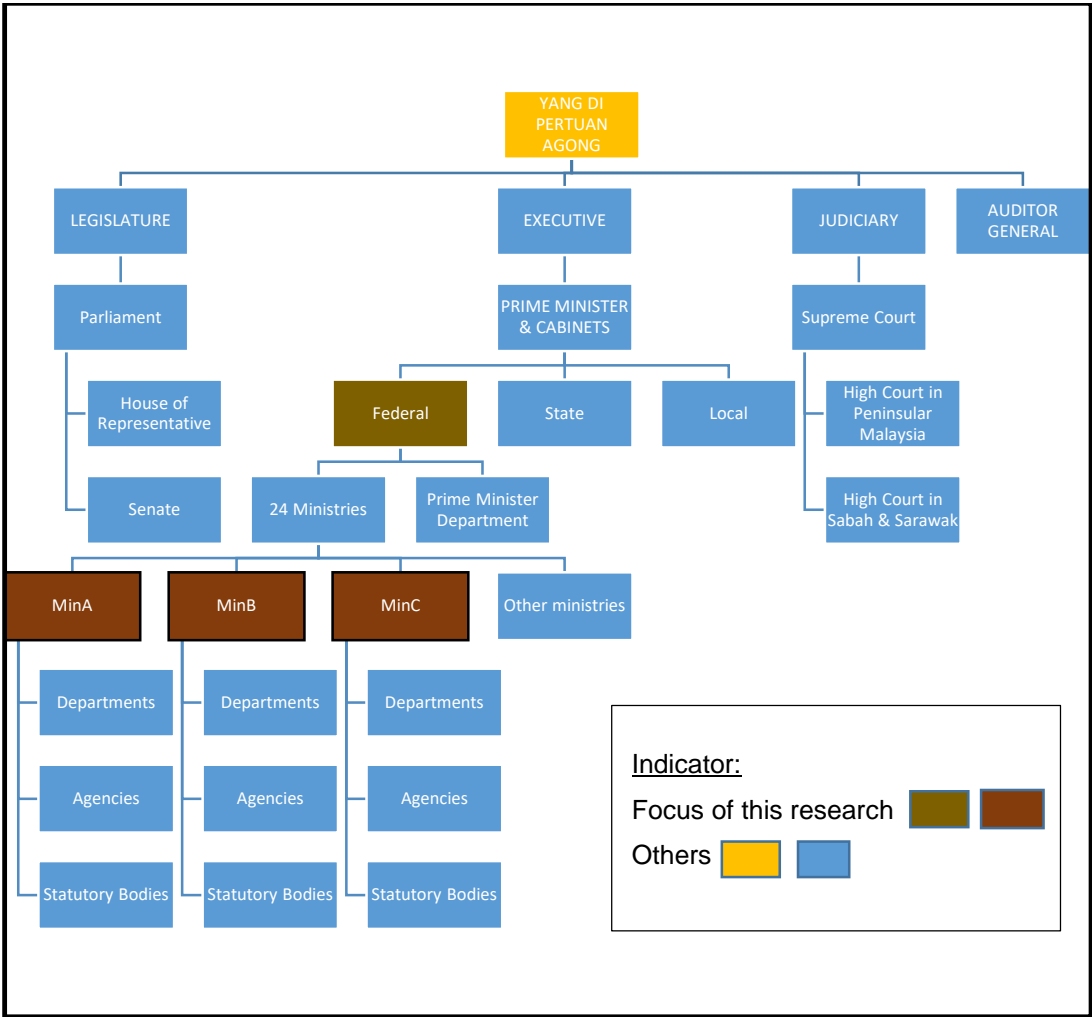
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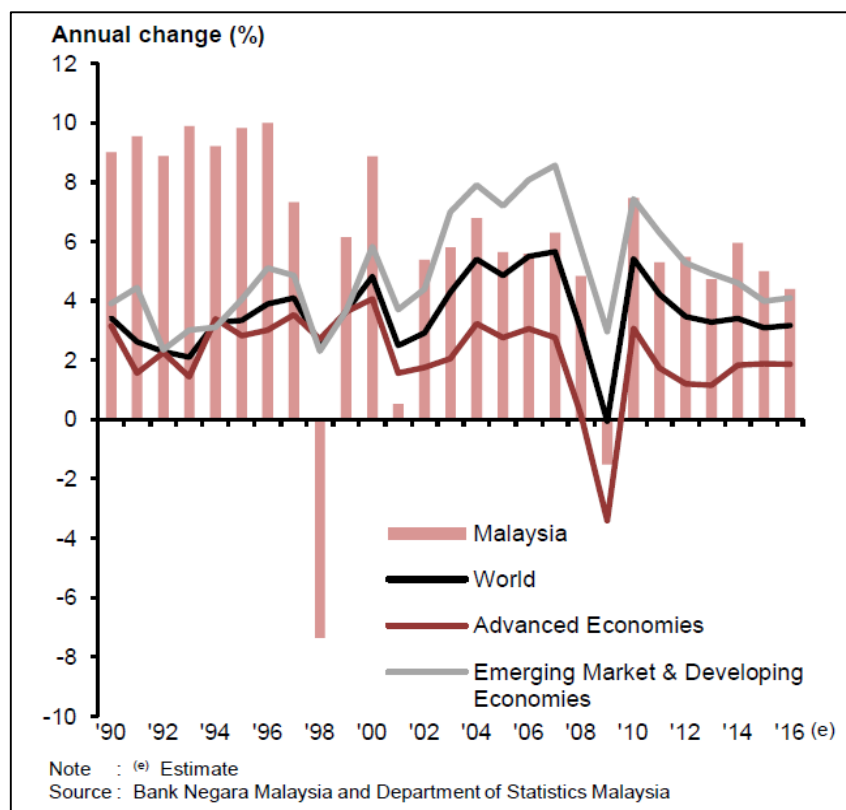
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APPENDICES



Three Components of the Malaysian Government System

Appendix B

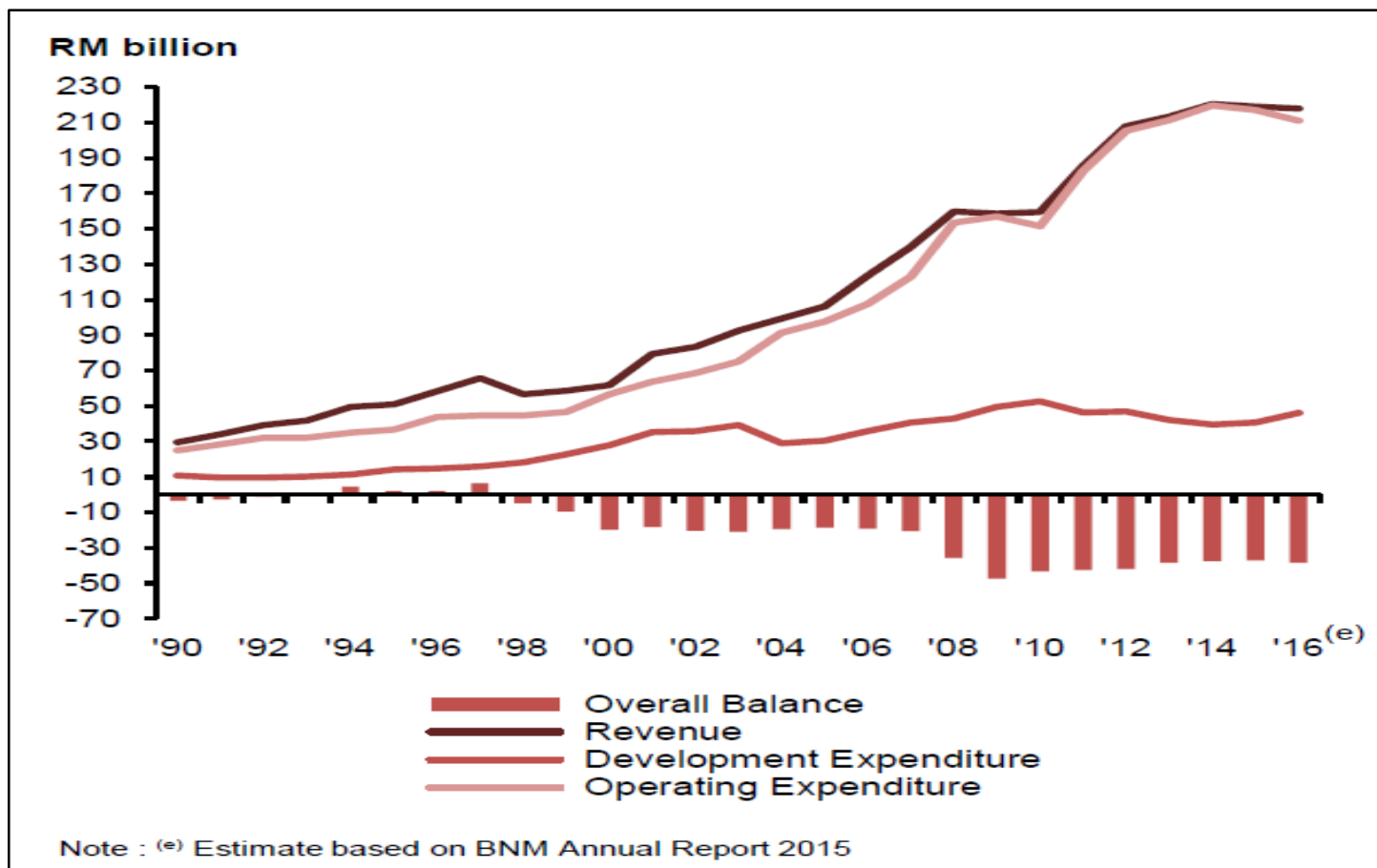


GDP Growth (annual %) 1990-2016

| | 2013 | 2014 | 2015 ^(p) | 2016 ^(e) |
|-----------------------------------|---------|---------|---------------------|---------------------|
| Population (million) | 30.2 | 30.7 | 31.2 | 31.4 |
| Labour force (million) | 13.6 | 13.9 | 14.2 | 14.6 |
| Employment (million) | 13.2 | 13.5 | 13.8 ^{1/} | 14.1 |
| Unemployment rate (%) | 3.1 | 2.9 | 3.1 | 3.3-3.5 |
| Nominal GDP (RM billion) | 1,018.8 | 1,106.6 | 1,156.9 | 1,229.0 |
| Nominal GNI (RM billion) | 984.8 | 1,069.3 | 1,124.7 | 1,191.0 |
| Real GDP growth rate (%) | 4.7 | 6.0 | 5.0 | 4.0-4.5 |
| GNI Per Capita (RM) | 32,596 | 34,945 | 36,285 | 37,930 |
| GNI Per Capita (US\$) | 10,345 | 10,677 | 9,291 | 8,821 |
| GNI Per Capita PPP (US\$) | 23,078 | 24,569 | 25,580 | 26,577 |
| Inflation (% p.a.) | 2.1 | 3.2 | 2.1 | 2.5-3.5 |
| Merchandise exports (RM billion) | 720.0 | 765.4 | 779.9 | 798.7 |
| Merchandise imports (RM billion) | 648.7 | 682.9 | 685.4 | 719.0 |
| Current account of BOP (% of GNI) | 3.6 | 4.4 | 3.0 | 1.0-2.0 |
| Exchange rate (RM/US\$) | 3.15 | 3.27 | 4.29 | 4.11 ^{2/} |

Note : (p) Preliminary (e) Estimate
^{1/} Updated based on population estimates 2015 ^{2/} January-May 2016
 Source : Bank Negara Malaysia, Department of Statistics Malaysia and the World Bank

Malaysia: Basics Statistics



Federal Government of Malaysia's Accounts (1990-2016)

| MAIN RESEARCH QUESTIONS (RQ) | METHOD & DATA SOURCES |
|---|--|
| <p><u>RQ1:</u> What are the expectations of users of accounting information with regard to the value of accrual accounting in the Malaysian government?</p> | <p><u>Document Review:</u></p> <ul style="list-style-type: none"> • Federal Constitutions (1972) • Financial Procedures Act (1972) • Treasury Instructions • Treasury Circulars • Minutes of Meetings (at respective ministries and central level) • Policy Statements • Government Finance Statistics Manual of 2011 • NEM • Public Accounts Committee Report • Press Release • Newspaper Articles • Speech – Prime Minister, Chief Secretary to the government, Chief Secretary of MoF <p><u>Semi –structured Interview:</u></p> <p><i>1. Organisational Field</i></p> <ul style="list-style-type: none"> • Accountant Generals’ of Malaysia • Official in Economic Division • Official in Budget Division • Official in National Audit Department • Members of PAC <p><i>2. Organisational Level*</i></p> <ul style="list-style-type: none"> • Chief Secretaries of Ministries • Secretary of Finance Department • Budgeting Officer • Internal Auditor <p><i>*At three ministries (MinA, MinB and MinC)</i></p> |
| <p><u>RQ2:</u> How do different public sector organisations manage and respond to the process of transition from modified-cash accounting to accrual accounting?</p> | <p><u>Document Review:</u></p> <ul style="list-style-type: none"> • Federal Constitutions (1972) • Financial Procedures Act (1972) • Treasury Instructions • Treasury Circulars • Federal Government Accrual Accounting Manual • IPSAS • MPSAS • Minutes of Project Steering Committee Meetings • Internal Audit Report • Project Progress Report • External consultant report • Policy Statements |
| <p><u>RQ3:</u> What lessons can be learned from the Malaysian</p> | <p><u>Document Review:</u></p> <ul style="list-style-type: none"> • Federal Constitutions (1972) • Financial Procedures Act (1972) • Treasury Instructions • Treasury Circulars • Federal Government Accrual Accounting Manual • IPSAS • MPSAS • Minutes of Project Steering Committee Meetings • Internal Audit Report • Project Progress Report • External consultant report • Policy Statements |

| | |
|--|--|
| <p>experience regarding the value of accrual accounting adoption in public sector?</p> | <p><u>Semi –structured Interview:</u></p> <p>1. Organisational Field</p> <p>a) <i>Internal Participants</i></p> <ul style="list-style-type: none"> • Officials in Treasury • Officials in Accountant General’s Department • Officials in National Audit Department <p>b) <i>External Participants</i></p> <ul style="list-style-type: none"> • Consultants • System Integrators • Committee of GASAC <p>2. Organisational Level</p> <p>a) <i>Internal Participants</i></p> <ul style="list-style-type: none"> • Head of Accountant* • Accountant * • Assistant Accountant* • Financial Managers* • Other Government Official especially at Responsibility Centre <p>b) <i>External Participants</i></p> <ul style="list-style-type: none"> • Consultant • System Integrator <p><u>Observations at Organisational Level:</u> Selected meeting and data collection processes at three ministries.</p> |
|--|--|

Relationship of RQ and Sources of Evidence

| Group of participants | Role of participants | Date of Interviews | Time Spent | Number of participants |
|---|---|--------------------|------------|------------------------|
| Organisational Field | <i>Two former top managers in AGD:</i> | | | 19 |
| | Accountant General of Malaysia | 21/11/2014 | 1.04 hour | |
| | Deputy Accountant General (Corporate) | 06/11/2014 | 50 minutes | |
| | Director of Information Technology Management Division | 20/11/2014 | 42 minutes | |
| | Director of Accrual Accounting Implementation Team | 05/06/2015 | 1.26 hour | |
| | <i>Five senior officials of the Accrual Accounting Implementation Team:</i> | | | |
| | Deputy Director (Technical) | 12/03/2014 | 1.57 hour | |
| | Deputy Director (Implementation and Data Management) | 29/04/2015 | 1.33 hour | |
| | Deputy Director (Policies and Standards) | 12/02/2014 | 25 minutes | |
| | Deputy Director (Change Management) | 30/04/2015 | 1.28 hour | |
| | Principal Assistant Director (Change Management) | 12/06/2014 | 52 minutes | |
| Deputy Director of the Central Operation and Agency Services Division (Federal Accounting Management) | 07/11/2014 | 1.10 hour | | |

| | | | |
|--|---|------------|------------|
| | One members of the GASAC | 18/11/2014 | 1.39 hour |
| | <i>Five senior officials of the MoF:</i> | | |
| | Principal Assistant Director (National Budget Office) | 05/05/2015 | 1.52 hour |
| | Head of Evaluation Section (National Budget Office) | 06/05/2015 | 1.26 hour |
| | Head of Performance Management Section (National Budget Office) | 20/05/2015 | 1.34 hour |
| | Principal Assistant Director of Performance Management Section (National Budget Office) | 20/05/2015 | 1.30 hour |
| | Head of Strategy Section (Fiscal and Economics Division) | 29/05/2015 | 1.15 hour |
| | <i>Two external consultants:</i> | | |
| | Executive Director of Service Provider | 13/11/2014 | 1.16 hour |
| | Project Manager of Service Provider | 04/12/2014 | 1.21 hour |
| | One of PAC's Members | 24/05/2015 | 51 minutes |
| Organisational Level <i>(MinA)</i> | Secretary General | 21/05/2015 | 33 minutes |
| | <i>Four officials of the Accounting Division:</i> | | |
| | Chief Accountant | 25/11/2014 | 1.41 hour |
| | Senior Accountant I (Road) | 25/11/2014 | 1.55 hour |
| | Senior Accountant II (Moveable Asset) | 14/05/2015 | 43 minutes |

| | | | | |
|--|---|------------|------------|----|
| | Senior Accountant III (Inventory) | 14/05/2015 | 43 minutes | 13 |
| | Official of the Budgeting Division | 21/05/2015 | 1.07 hour | |
| | Asset Manager | 14/05/2015 | 1.02 hour | |
| | Internal Auditor | 27/11/2014 | 1.03 hour | |
| | <i>Two officials and three clerks of Department A (Responsibility Centre) :</i> | | | |
| | Head of Finance and Account Division | 22/05/2015 | 26 minutes | |
| | Head of Corporate Management (Asset) | 22/05/2015 | 56 minutes | |
| | Account Assistant | 22/05/2015 | 22 minutes | |
| | Administrative Clerk (Processing payment) | 22/05/2015 | 20 minutes | |
| | Chief Clerk | 22/05/2015 | 15 minutes | |
| Organisational Level <i>(MinB)</i> | Chief Secretary of Finance Division | 13/05/2015 | 1.19 hour | 12 |
| | Senior Accountant of Finance Division | 13/05/2015 | 35 minutes | |
| | <i>Two officials of the Accounting Division:</i> | | | |
| | Chief Accountant | 26/11/2014 | 1.53 hour | |
| | Senior Accountant | 26/11/2014 | 1.22 hour | |
| | Head of Internal Audit | 07/05/2015 | 1.23 hour | |
| | Official of the Asset and Budgeting Unit | 07/05/2015 | 55 minutes | |
| | <i>Four officials and two clerks of the Department B (Responsibility Centre):</i> | | | |
| | Director General | 14/05/2015 | 44 minutes | |

| | | | | |
|--|---|-------------------|------------|-----------|
| | Accountant | 11/05/2015 | 1.39 hour | |
| | Manager for museum collection | 11/05/2015 | 1.15 hour | |
| | Budgeting Officer | 14/05/2015 | 53 minutes | |
| | Assistant Accountant | 11/05/2015 204 | 46 minutes | |
| | Administrative Clerk (Asset) | 14/05/2015 | 53 minutes | |
| Organisational Level <i>(MinC)</i> | Secretary General | 19/05/2015 | 30 minutes | 10 |
| | <i>Three officials of the Accounting Division:</i> | | | |
| | Chief Accountant | 15/05/2015 | 2.25 hour | |
| | Senior Accountant (Moveable Asset) | 15/05/2015 | 2.25 hour | |
| | Senior Accountant (Immoveable Asset) | 15/05/2015 | 2.25 hour | |
| | Official of the Budgeting Division | 18/05/2015 | 54 minutes | |
| | Asset manager | 18/05/2015 | 52 minutes | |
| | Deputy Head of the Internal Audit Division | 20/05/2015 | 53 minutes | |
| | <i>One official and two clerks of the Department C (Responsibility Centre):</i> | | | |
| | Senior Assistant Accountant | 18/05/2015 | 1.35 hour | |
| Assistant Accountant | 19/05/2015 | 15 minutes | | |
| Asset Manager | 20/05/2015 | 1.33 hour | | |
| Grand Total | | | | 54 |

Details of participants

INTERVIEW GUIDE

This document outlines how to operationalise the key elements of research design that will be applied in this research. It serves as a guidance in dealing with the kind of data or evidence needed to address the research questions by providing the linkages between the central aims of this research with the strategy of enquiry and the specific method of data collections.

1. Research Aim

This research will explore the process of accounting transformation from modified-cash basis to accrual basis within the Federal Government of Malaysia. In particular, the research will examine how the accrual accounting practices become institutionally embedded within political and administrative structures. It will also investigate how organisations manage and respond to any potential institutional complexity during the transition period in which the organisations may experience incompatible prescriptions arising from the existence of social welfare logic and efficiency logic concurrently. With its focus on inter and intra-organisational phenomenon this research endeavour requires understanding the details of the organisational field and organisational level.

2. Research Questions (RQ)

This research intends to address the following questions:

RQ 1: What are the expectations of users of accounting information with regard to the value of accrual accounting in the Malaysian government?

RQ 2: How do different public sector organisations manage and respond to the process of transition from modified-cash accounting to accrual accounting?

RQ 3: What lessons can be learned from the Malaysian experience regarding the value of accrual accounting adoption in public sector organisations?

3. Linkages between Research Questions, Method & Data Sources

| MAIN RESEARCH QUESTION (RQ) | SUB-QUESTIONS (Data Collection Questions) | METHOD & DATA SOURCES |
|---|--|---|
| | General background and orientation of users: <ul style="list-style-type: none"> • Level of Position • Years of experience in services • Years of experience in this ministry/department • Educational/professional background • Gender | |
| <p><u>RQ1:</u> What are the expectations of users of accounting information with regard to the value of accrual accounting in the Malaysian government?</p> | <p>(a) <u>New Ideals</u></p> <p><u>Field Level & Organisational Level</u></p> <ol style="list-style-type: none"> 1) Motivations and incentives 2) What are the basis and sources of information do you use when making financial management decisions? 3) What is your initial perception of the reform? 4) What are your expectations on the accrual accounting information? 5) What do you want from the reform program? 6) Do you communicate with the producer on your specific requirements of the financial report? 7) What are the connections between accrual accounting and government financial management process? | <p><u>Document Review:</u></p> <ul style="list-style-type: none"> • Federal Constitutions (1972) • Financial Procedures Act (1972) • Treasury Instructions • Treasury Circulars • Minutes of Meetings (at respective ministries and central level) • Policy Statements • NEM • Public Accounts Committee Report • Government Financial Sta • Press Release • Newspaper Articles • Speech – Prime Minister, Chief Secretary to the government, Chief Secretary of MoF <p><u>Semi –structured Interview:</u></p> <p><u>1. Field Level</u></p> <ul style="list-style-type: none"> • Accountant Generals' of Malaysia • Officials in Economic Division • Officials in Budget Division • Officials in National Audit Department |

| | | |
|--|--|---|
| | | <p>2. Organisational Level*</p> <ul style="list-style-type: none"> • Chief Secretaries of Ministries • Secretary of Finance Department • Budgeting Officer • Internal Auditor |
| <p><u>RQ2:</u> How do different public sector organisations manage and respond to the process of transition from modified-cash accounting to accrual accounting?</p> | <p>(b) New Discourse</p> <p><u>Field Level</u></p> <p>8) What are the efforts organised at central level to disseminate and coordinate the idea of accounting reform among the key actors at ministerial level?</p> <p>9) What are the main components of the reform programme?</p> <p>(c) New technique</p> <p><u>Field Level and Organisational Level</u></p> <p>10) What are the new rules/guidelines/system being introduced to materialise the aims of the reform program?</p> <p>11) How have the new rules/guidelines/system been prepared?</p> <p>12) Considerations on user's need in the preparation of accounting standards/manual</p> <p>13) Communications with the producer at ministerial level during standard preparation process</p> <p>14) Does the central level impose any mechanism for monitoring and controlling purposes?</p> | <p><u>Document Review:</u></p> <ul style="list-style-type: none"> • Federal Constitutions (1972) • Financial Procedures Act (1972) • Policy Statements • Treasury Instructions • Treasury Circulars • Federal Government Accrual Accounting Manual • IPSAS • MPSAS • Manual for Data Collection • Minutes of Project Steering Committee Meetings • Internal Audit Report • Project Progress Report • Consultant's report <p><u>Semi –structured Interview:</u></p> <p>1. Field Level</p> <p>a) <i>Internal Participants</i></p> <ul style="list-style-type: none"> • Officials in MoF • Officials in Accountant General's Department • Officials in National Audit Department <p>b) <i>External Participants</i></p> <ul style="list-style-type: none"> • Consultants • System Integrators |

| | | |
|--|--|--|
| | <p>15) If so, how do the monitoring and controlling mechanisms take place?</p> <p>(d) <u>Internalisation</u></p> <p><u>Organisational Level</u></p> <p>16) Initial perceptions of :</p> <ul style="list-style-type: none"> ➤ the fundamentals of accrual accounting concept ➤ the new accounting standards/manuals ➤ level of complexity of the new standards/manuals ➤ demandingness in accounting skills and capacities ➤ clarity of the new standards/manuals <p>17) How do you use the new accounting standards or accounting manuals in collecting the data for opening balance?</p> <p>18) Do you interact with the potential users regarding their expectations and requirements?</p> <p>19) What are the users' expectations of the accrual accounting?</p> <p>20) To what extent the new rules facilitate the reform process, especially in recognition, measurement and valuation of assets and liabilities?</p> <ul style="list-style-type: none"> ➤ Does it fit with the organisation's policies and aims? ➤ Does it fit with the users' expectations and requirements? <p>Interest Dissatisfaction</p> <p>21) What do you understand about accrual accounting?</p> <p>22) How is it different from your previous work practice?</p> | <ul style="list-style-type: none"> • Committee of GASAC <p>2. Organisational Level</p> <p>a) <i>Internal Participants</i></p> <ul style="list-style-type: none"> • Head of Accountant* • Accountant * • Assistant Accountant* • Financial Managers* • Other Government Official at RC <p>b) <i>External Participants</i></p> <ul style="list-style-type: none"> • Consultant • System Integrator <p><u>Observations at Organisational Level:</u> Selected meeting and data collection processes at three ministries.</p> |
|--|--|--|

23) What are the contributions of accrual accounting in government financial management?

Value of Commitments

24) What are your roles in the reform process?

25) Do the new accounting practices need new ways of thinking and doing things in the organisation? If, so how?

26) Do your subordinates/ the people-in-charge give full commitment towards the reform activities?

Capacity for Actions

27) Do the contents of training program enhance your existing knowledge on accrual accounting?

28) Do you have any experience in implementing accrual accounting?

29) Do you have sufficient and suitable human resource to cater to the needs of reform activities?

30) Do you have sufficient financial resources to execute the reform activities?

31) How do you cope with these changes?

Power Dependencies

32) Interaction on the progress

33) What type of support given by the top management to ensure the reform was implemented as required?

34) How do you ensure that your ministry carry out all the obligations needed in this reform program?

| | | |
|---|--|--|
| | <p>General</p> <p>35) What are the key challenges that you faced throughout the transition process?</p> <p>36) If you have given the chance to restart the transition process, how do you want to materialize the government's intention?</p> | |
| <p><u>RQ3:</u> What lessons can be learned from the Malaysian experience regarding the value of accrual accounting adoption in public sector organisations?</p> | <p><i>Field Level & Organisational Level</i></p> <p>37) Do the actor appropriate change for themselves?</p> <p>38) How does accrual accounting contribute to effective fiscal management within the stipulated time?</p> <p>39) At the current stage of reform, can we still achieve the initial targets?</p> <p>40) What are the efforts organised at central level to ensure that we can still achieve the initial targets?</p> | |

5. Timeline for data collection process

| Item | Details | Proposed Date | Aims |
|------|--|------------------------------------|---|
| 1 | <i>1st Phase - Pilot Research & Pre-Implementation Review</i> | 5 November 2014 - 6 December 2014 | <ul style="list-style-type: none"> • To gather a preliminary data through document analysis and interview at central agencies in order to provide the historical background and identify the current status of the project. • To finalise the selection of case studies. • To approach the gate keeper at selected ministries for the purpose of setting the date for interview session and identification of suitable location for fieldwork particularly for the observation purposes. |
| 2 | <i>2nd Phase – Implementation Review</i> | 21 April 2015 – 28 May 2015 | <ul style="list-style-type: none"> • To conduct fieldwork at two selected ministries. • To continue liaison with the key actor at central agencies. |
| 3 | <i>3rd Phase - Final Review</i> | 1 January 2016 - 30 September 2016 | <ul style="list-style-type: none"> • To conduct post-implementation review to update the status of the project through the interview with the key informant (via skype & e-mail) and latest project documentation. |

| ITEM | MODIFIED-CASH ACCOUNTING (Social Welfare Logic) | ACCRUAL ACCOUNTING (Efficiency Logic) |
|--|--|--|
| Goals | Provide financial information to ensure the compliance with authorised spending as stated by Federal Constitution and other statutory requirements (ex-post). | Besides disclose how public fund being utilised, the accounting report faithfully represent financial information to facilitate decision making to achieve high income nation (ex-post & ex-ante) |
| Core Principles | Traditional Public Managerialism: Government act as agent to develop the infrastructure or provide the services to address the interest, values and needs of local communities without seeking economic utility. | New Managerialism: Government act as facilitator for greater effectiveness in public service delivery emphasising rationality in cost containment (minimise cost and maximise service performance) |
| How logic organise behaviour of the producer of financial information (Means) | <p>a) FEATURES:</p> <ul style="list-style-type: none"> • Partial Information Restricted to cash transaction and keeping some knowledge private. • Final Reporting Federal Government Financial Statement <p>b) ASSOCIATED ACTIVITIES</p> <ul style="list-style-type: none"> • Simple Accounting Process Accounting personnel will record the transaction once the payment made and revenue is received | <p>a) FEATURES:</p> <ul style="list-style-type: none"> • Comprehensive Information Disclose all the government's economic transaction either cash or non-cash. • Final Reporting <ol style="list-style-type: none"> 1. Federal Government Financial Statement 2. Ministry Financial Statement <p>b) ASSOCIATED ACTIVITIES</p> <ul style="list-style-type: none"> • Detail Accounting Process Accounting personnel, asset manager and debt manager will work together in the process of identification, valuation, measurement and verification of economic transaction. Then, the transaction will be categorised and recorded accordingly by accounting personnel. |

| | | |
|--|---|---|
| | <ul style="list-style-type: none"> Cash inflow (revenue) and cash outflow (expenses) are recorded based on IPSAS in Cash Basis format. Also, any expenses incurred during the reported year but paid in the month of January in the following year are considered as a transaction for reported period. <p>No recording required for the non-cash transaction.</p> <p>Periodical maintenance of the record of assets and some liabilities as the information will be reported only for internal management purposes on a quarterly basis.</p> | <p>Cash and non-cash transactions covering revenue, expenses, assets and liabilities are recorded based on MPSAS and related government policies.</p> <p>For the non-cash transaction such as provision for doubtful debt and provision for diminution in value, accounting personnel need to exercise professional judgement in estimating and recording the transaction.</p> <p>Regular maintenance of accounting records including assets and liabilities is needed as the information is reported on a monthly and yearly basis for decision making purposes. Furthermore, the auditor will verify all the figure reported in the annual government financial statement and also subject to further scrutiny by the PAC and public.</p> |
| <p>How logic organise user's behaviour in the usage of accounting information (Means)</p> | <p>Accounting report for operational monitoring only as it indicate the type of cash revenue and cash expenditure as compared to the budget approved by the Parliament.</p> <p>a) COST INEFFECTIVENESS The efficiency is not a priority as every ministry tries to utilise the budget given without considering any other consequences.</p> <p>b) BUREAUCRACY The evaluation on performance and budget appropriation is made without clear relationship between financial information and non-financial information on performance. Most of the ministries tries to expand their role in fulfilling public needs regardless</p> | <p>Accounting information as a tools to support the NPM idea in policy making, budgeting, and long-term planning for prudence fiscal management and greater cost rationalisation.</p> <p>a) COST EFFECTIVENESS Emphasise cost effectiveness in: a) OBB – The allocation of financial resources based on the achievement of KPI to resolve the cross-cutting issues and reduce overall expenditure. b) Activity-Based Costing – to identify total cost per activity (including capital expenditure) for better efficiency</p> <p>b) ACCOUNTABILITY Close linkages between financial information and performance information. For performance measurement, the financial information will be compared with the actual achievement of KPI (desired output, outcome and impact). Also, the monitoring and</p> |

of the costing, performance and the contribution towards national's economy.

c) LESS ACCURATE

Accounting report will only provide cash transaction in government's revenue and expenses explaining how the government utilised the public fund.

d) OPACITY

Provide **selective information** and involves many off-balance sheet item such as PPP, PFI, pensions liabilities and assets. Hence, the user could not get the full information on government's financial performance and financial position.

detail scrutiny of the public governance will be made at the field (macro) and organisational level (micro).

i) Macro Level

The financial report will provide the full cost information including long-term liabilities and capital expenditure. Hence, Treasury will evaluate and compare every departmental plan to tackle long-term issues, remove duplications and to control over the continuous increase in assets and liabilities amount.

ii) Micro Level

Through ministry's financial statement, SG will hold responsible for public fund utilisation in delivering public services according to specified activities and program. This may lead to the changes in management behaviour among the public organisations.

c) ACCURACY

Accounting report will provide more comprehensive and accurate information on the full cost of the expenses incurred by government to ensure there were no wastage, misuse or any deficiencies in utilising public fund.

d) TRANSPARENCY

The accounting report will disclose **comprehensive information** including debt and future commitment to indicate the government's financial performance and financial position. Hence, the user could use this report to inform on how the government manage the public fund, specifically on whether the expenses was made according to the public needs, the debt was managed according to specified rules and the revenue and assets was managed adequately.

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| | <p>e) IMAGE BOOST Not a priority since there were no dramatic changes on the political leader and ruling party.</p> | <p>e) IMAGE BOOST The new financial information is used to present the healthier financial position for political reasons. This expectation causing a bias in the formulation of the policy and adoption of certain standards that led to selective disclosure and the information asymmetry. Hence, this expectation may contradict with another principle especially the transparency and accuracy.</p> |
|--|---|---|

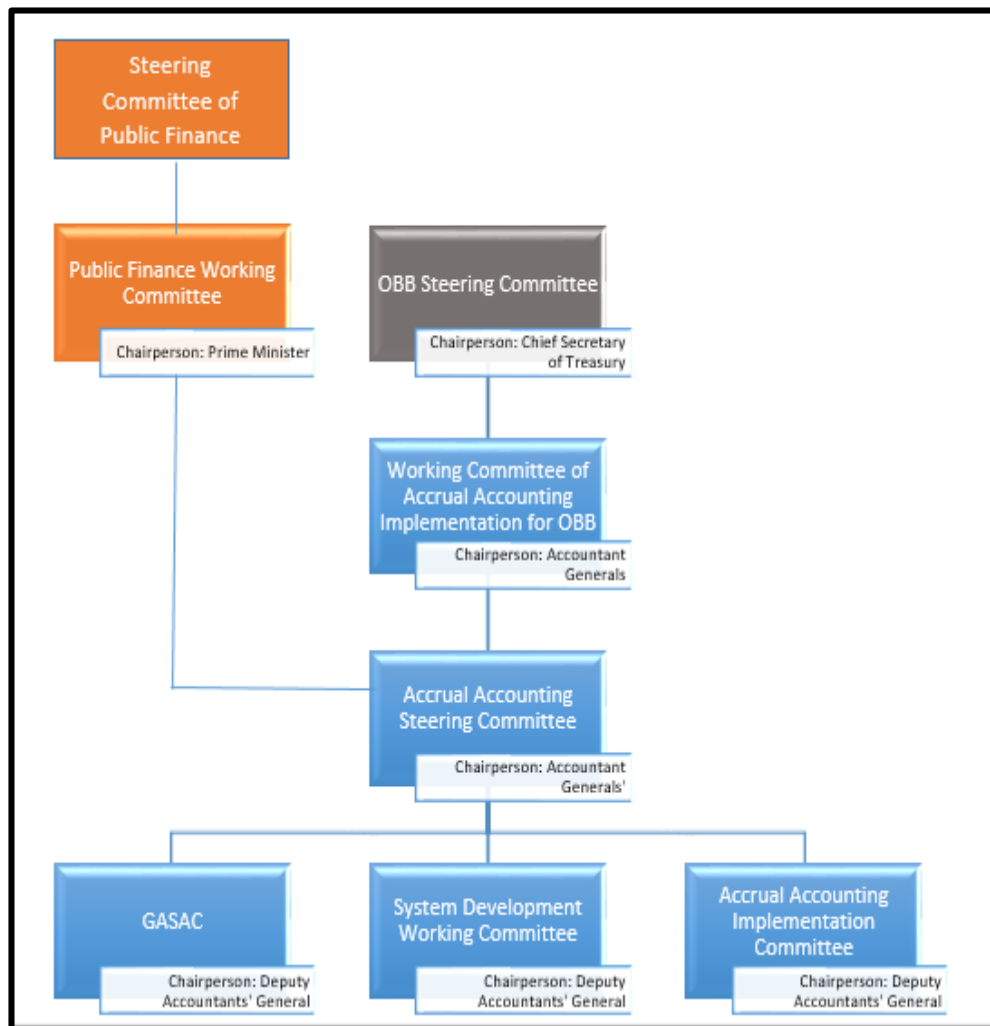
Summary of Differences between Two Logics

Appendix H

| Year | Date | Event | Source Document |
|------|-----------------------|--|---|
| 2008 | 08/03/2008 | 12 th General Election yielded one of the worst results in the coalition's history which attributed with a swing in the vote. After this event Abdullah Ahmad Badawi announced as the Malaysia's fifth Prime Minister. | New Straits Times dated 08/03/2008 |
| 2009 | 03/04/2009 | Changes in the main political leader where Dato' Sri Najib Tun Razak was sworn in as the sixth Prime Minister of Malaysia. | Internal Document |
| 2010 | 03/12/2010 | <p>Issuance of NEM containing suggestion by NEAC* on the implementation of accrual accounting in the public sector as part of the Government Transformation Programme.</p> <p>The endorsement of the Final Chapter of NEM by the government containing the effort to adopt Accrual accounting.</p> | <p>NEM (Final Chapter) – Item 4.5.1: Accrual Accounting under Discipline and Fiscal Reforms.</p> <p>Speech by Datuk Sri Najib at PICC on 'New Economic Model For Malaysia - The Concluding Part.'</p> |
| 2011 | 21/02/2011-1/04/ 2011 | SRI Public Finance Lab held in 6 weeks to develop accrual accounting implementation framework and prepare the detailed timeline. At the end of this meeting, the Prime Minister agreed to adopt according to strategy proposed by SRI Pubic Finance Committee. | Accessed on 25/1/2016: http://www2.anm.gov.my/akruan/Pages/Latar-Belakang.aspx |
| | 11/05/2011 | Formal announcement on the adoption of accrual accounting in Malaysian Public Sector on 1st January 2015 by Dato' Sri Najib | Fokus Akruan Bil. 1 |
| 2012 | Throughout 2012 | Tendering process for the appointment of System Integrator (SI), System Consultant and service provider. | Internal Document |
| 2013 | 28/03/2013 | <p><u>At Central Level:</u></p> <p>a) Issuance of Treasury Circular detailing the benefit of accrual accounting and the main implementation strategy</p> <p>b) Appointment of SI and consultant</p> <p>c) Preparation of the blueprint for the development of 1GFMAS since May 2013.</p> | <p>Treasury's Circular 4/2013</p> <p>} Fokus Akruan Bil. 2</p> |

| | | | |
|------|-------------------------------|--|------------------------------------|
| | Start from 28/03/2013 onwards | <u>At Ministry Level:</u> Begin to host awareness and training session as well as data collection activities to establish assets and liabilities opening balances. | Minutes of Meetings |
| | 05/05/2013 | 13 th Malaysia General Election. | New Straits Times dated 05/05/2013 |
| 2014 | 07/10/2014 | First reading on the proposal of amendment of Financial Procedures Act, 1957 | Internal Document |
| | 27/10/2014 | The decision on the changes to the original date of accrual accounting implementation, to a later date. Also, the decision on the Dry Run Process for 1GFMAS. | Treasury's Letter dated 27/10/2014 |
| 2015 | Throughout the year | Development of 1GFMAS and Dry Run Process Training, Data Collection and Verification Activities. | Minutes of Meetings |
| | | Announcement of the implementation of accrual accounting system, 1GFMAS in 2017 | Minutes of Meetings |
| 2016 | Throughout the year | Development of 1GFMAS Training, Data Collection and Verification Activities at ministerial level | Minutes of Meetings |

Chronology of Reform Process



Sources: AGD, 2014

Accrual Accounting Governance Structure

| No | Reform Strategy | Activities |
|----|--|---|
| 1 | Enhancement of Act and Regulation | The amendment of Financial Procedures Act 1957 and the issuance of Treasury Circular No. 4/2013. |
| 2 | Development of Standard and Policies | The preparation of the new accounting policies, standard and regulations based on IPSAS. |
| 3 | Data Management and Information Technology | <p>i) The establishment of opening balances for all the government assets and liabilities to form the Balance Sheet for the government. After data collection process, the ministry will forward the data to their Internal Auditors for verification purposes. In this process, the AGD has determine three main parties responsible for ensuring the reliability of this data:</p> <ul style="list-style-type: none"> • Account Division - First Level of Defence • Internal Audit - Second Level of Defence • National Audit Department - Third Level of Defence. <p>ii) The development of a new system, 1GFMAS to replace the function of existing accounting information system, GFMAS. The new accounting system has four main features, which is: harmonised, integrated, upgraded, centralised.</p> |
| 4 | Human Resources Management | <p>i) The changes in organisational structures</p> <ul style="list-style-type: none"> • Restructuring and hiring additional number of accounting personnel. • The appointment of : one international software company as system consultant to provide technical advice in tender document and development process, a local IT company as system integrator (SI) that responsible to supply a new hardware and develop a new accounting system and one international audit firms as service provider that prepares the initial set-up for data collection process. • Technical support from international bodies such as World Bank, IMF and |

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| | | <p>United Nation under Global Shared Service Centre (GSSC).</p> <p>ii) The preparation of intensive change management program.</p> <ul style="list-style-type: none"> • Town hall among accounting personnel • Awareness session to top management • Training on the application of MPSAS and the new system among the reform actors |
|--|--|---|

Summary of Reform Activities

| MPSAS | DETAILS |
|-----------------|---|
| MPSAS 1 | Presentation of Financial Statements |
| MPSAS 2 | Cash Flow Statements |
| MPSAS 3 | Accounting Policies, Changes in Accounting Estimates and Errors |
| MPSAS 4 | The Effect of Changes in Foreign Exchange Rates |
| MPSAS 5 | Borrowing Costs |
| MPSAS 6 | Consolidated and Separate Financial Statements |
| MPSAS 7 | Investments in Associates |
| MPSAS 8 | Interest in Joint Ventures |
| MPSAS 9 | Revenue From Exchange Transactions |
| MPSAS 11 | Construction Contracts |
| MPSAS 12 | Inventories |
| MPSAS 13 | Leases |
| MPSAS 14 | Events After The Reporting Date |
| MPSAS 16 | Investment Property |
| MPSAS 17 | Property, Plant and Equipment |
| MPSAS 19 | Provisions, Contingent Liabilities and Contingent Assets |
| MPSAS 20 | Related Party Disclosure |
| MPSAS 21 | Impairment of Non-Cash-Generating Assets |
| MPSAS 22 | Disclosure of Financial Information |
| MPSAS 23 | Revenue From Non-Exchange Transactions (Taxes and Transfers) |
| MPSAS 24 | Presentation of Budget Information in Financial Statements |
| MPSAS 25 | Employee Benefits |
| MPSAS 26 | Impairment of Cash-Generating Assets |
| MPSAS 27 | Agriculture |
| MPSAS 28 | Financial Instruments : Presentation |
| MPSAS 29 | Financial Instruments : Recognition And Measurement |
| MPSAS 30 | Financial Instruments : Disclosure |
| MPSAS 31 | Intangible Assets |

| | |
|-----------------|--|
| MPSAS 32 | Service Concession Arrangements : Grantor |
| MPSAS 33 | First-Time Adoption of Accrual Basis MPSASs |
| MPSAS 34 | Separate Financial Statements |
| MPSAS 35 | Consolidated Financial Statements |
| MPSAS 36 | Investments in Associates and Joint Ventures |

List of MPSAS as at June 2016

| Type | Class of Assets/Liabilities | Details |
|-------------|---------------------------------|---|
| Assets | Immovable Assets | Land, Office Building, Road |
| | | Works and Infrastructure: Drainage and Irrigation Facilities Flood Control Facilities Sewerage Facilities Power Generating Facilities |
| | Moveable Assets | Motor Vehicle, Machinery, Office Equipment, Furniture ICT Equipment and Appliances |
| | Assets Under Construction (AUC) | Building, Road |
| | Account Receivable | |
| Liabilities | Account Payable | Deposit, PFI, PPP, Road Concession, Performance Guarantee |

Summary of Assets and Liabilities of MinA

| Type | Class of Assets/Liabilities | Details |
|-------------|-----------------------------|---|
| Assets | Immovable Assets | Land, Office Building, Others Building (including museum, library and gallery) |
| | Moveable Assets | Motor Vehicle, ICT Equipment, Furniture Broadcasting and Musical Equipment and Appliances Unique Assets |
| | Heritage Assets | Museum's collection Manuscript |
| | Account Receivable | Amount due from tenant Amount due from employee |
| Liabilities | Account Payable | Deposit, Performance Guarantee |

Summary of Assets and Liabilities of MinB

| Type | Class of Assets/Liabilities | Details |
|--------------------|-----------------------------|--|
| Assets | Immovable Assets | Land, Office Building, |
| | | Works and Infrastructure: Land Transport Facilities Air Transport Facilities Water Transport Facilities |
| | Moveable Assets | Motor Vehicle, Boats and Ships Aeroplane and Helicopters Radar Machinery Office Equipment, Furniture ICT Equipment and Appliances Communication Equipment & Appliance |
| | Assets Under Construction | Building |
| | Account Receivable | |
| Liabilities | Account Payable | Deposit, PFI, PPP, Concession Liabilities, |

Summary of Assets and Liabilities of MinC