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Transition from Cash to Accrual Accounting: Malaysia Experience

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Executive Summary

The Malaysian government made the decision to switch from cash to accrual accounting in 2010. This move was part of the New Economic Model under the Public Finance Strategic Reform Initiatives to improve fiscal management. The original target of full accrual implementation in 2015 had to be postponed several times due to various challenges. The main obstacle is the delay in obtaining a formal mandate for the change in the relevant Act. Although the accounting system Integrated Government Financial Management Accounting System (iGFMAS) was completed in 2017 and produced accrual-based financial reports in 2018, cash-based financial reports must still be tabled in parliament. The amendments to relevant acts are yet to be tabled and approved by the parliament. Furthermore, successful implementation of accrual accounting necessitates a cultural shift, acceptance, and support from all organizational members, which is another challenging aspect. The Malaysian government's big bang approach and the short time frame for implementing accrual accounting were difficult. Another factor that influences accrual implementation is effective communication that should include all levels of staff and relevant departments. Given the aforementioned challenges, strong political support is necessary to drive the change initiatives. Furthermore, Schick's (1998) philosophy of "basic first," which promotes proper sequencing of needs and resources is recommended for successful implementation of accrual accounting, especially in the context of developing countries.

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1. Introduction

The Malaysian government considered using accrual accounting to replace cash accounting as early as the 1990s. The initial efforts of the Accountant General's Department (AGD) had to be shelved due to a lack of top management and political support. Decades later, accrual accounting was implemented as one of the strategic reform initiatives (SRIs) under the National Economic Model (NEM) 2011–2020. According to the National Economic Advisory Council (NEAC, 2010) "the adoption of accrual accounting will facilitate asset-liability management, and hence, comprehensive and prudent fiscal management" (p. 60). The federal government's initial implementation target was 2015, with state governments following in 2016.

This policy brief aims to share Malaysia's experience in transitioning from cash to accrual accounting. Based on literature review and interviews with selected key personnel, this policy brief explains the reforms in government accounting, status, and challenges in accrual accounting implementation.

The remainder of this paper is structured as follows. Section 2 provides brief background information on Malaysia, followed by Section 3 on government accounting reforms. Section 4 discusses the difficulties associated with implementing accrual accounting. Finally, Section 5 presents the conclusion and recommendations.

2. Background on Malaysia

Malaysia is a Southeast Asian country divided into two regions: Peninsular Malaysia (11 states) and Borneo East Malaysia (2 states). It has a total population of 32.7 million people and an area of approximately 328,550 km2. Malaysia's main capital city is Kuala Lumpur, while Putrajaya serves as the administrative capital.

Figure 1. Map of Malaysia

Source: https://www.worldatlas.com/maps/malaysia)

Malaysia has three major ethnic groups: Bumiputera (62%, including Malays and indigenous groups of the Peninsula, Sabah, and Sarawak), Chinese (20.6%), and Indians (6.2%). Non-citizens and other groups constitute approximately 11.2% of the total population.

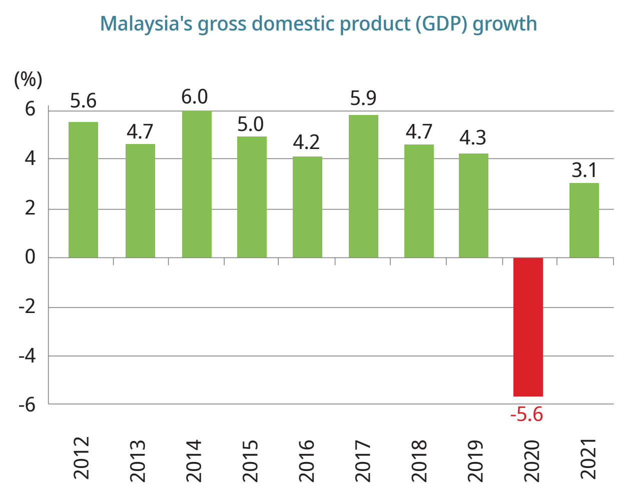
Malaya was a British colony until its independence on August 31, 1957. The Federation of Malaysia was established in 1963 by the merger of Malaya, Singapore, Sabah, and Sarawak. In August 1965, Singapore left the Federation to form its own independent country.

The political system of Malaysia is a federal constitutional monarchy. It adopts the Westminster-style parliamentary system of the British government, with multi-party elections held periodically. Malaysia's government is led by a Prime Minister who is also the head of the federal cabinet. The head of state is an elected monarch or king (*Yang Dipertuan Agung*), elected every five years from among the nine state sultans.

Malaysia is composed of 13 states and 3 federal territories, and each state government is headed by a Chief Minister. Of the 13 states, 9 are led by sultans, the hereditary rulers of the Malay states, whereas the remaining 4 are headed by governors (Yang Di-Pertua Negeri). The federal government directly administers Kuala Lumpur, Putrajaya, and Labuan as federal territories.

The World Bank classifies Malaysia as an upper middle income, export-oriented economy. Since its independence, Malaysia's economy has been primarily based on the production of rubber and tin. Over the years, Malaysia has advanced and established itself as a leading producer of oil and natural gas, electronic components and electrical goods, and a variety of other manufactured products. In 2020, 86.5% of Malaysia's exports were manufactured goods.

Figure 2. Malaysia's Gross Domestic Product (GDP) Growth



Source: The Department of Statistics Malaysia.
https://www.theedgemarkets.com/article/bnm-malaysias-4q21-gdp-grew-36-yearonyear-fullyear-expansion-31

The Malaysian economy has grown steadily since its independence, but it was not immune to the adverse effects of the 1991–1998 Asian financial crisis, like other countries in the region. After the crisis, Malaysia's economy recovered and registered an upward trend with an average growth rate of 5.4% since 2010.

However, the COVID-19 pandemic has disrupted economic growth and halted Malaysia's progression from an upper middle income to a high-income economy between 2024 and 2028, as predicted by the World Bank. The pandemic, decline in oil prices, and the Ukraine war have negatively impacted Malaysia's economy. It experienced a severe contraction of 5.6% in 2020. However, the economy rebounded slightly in 2021 as a result of further relaxation of the control measures, registering a modest 3.1% growth rate. It has not

fully recovered as of 2022, but there are signs of economic recovery. The Bank Negara of Malaysia reported that the Malaysian economy grew by 5.0% in the first quarter of 2022.

After achieving independence in 1957, reforms in the Malaysian public sector promoted economic and rural development. In the 1970s, the emphasis on economic growth continued with the implementation of the *New Economic Policy*, which entailed the creation of numerous socioeconomic development, project, and infrastructure programs for the country. Between the 1980s and 1990s, reforms were enacted to enhance performance and service quality. Public administrative reforms continued into the first half of the *New Development Plan under the 6th Malaysia Plan, in which Vision 2020* was launched. Vision 2020 aimed to make the country an industrialized, self-sufficient nation by the year 2020. The *7th Malaysia Plan* emphasizes effective financial performance management, which is continued in the *8th* and *9th* Malaysia Plans. The year 2010 saw the introduction of the *New Economic Model*, which ushered in a significant reform in financial performance management. Under the *11th Malaysia Plan* (2016–2020), new priorities and focuses have been established. One of them is reforming governance toward greater transparency and enhancing the effectiveness of public service.

Economic Transformation Program (ETP) is tasked with achieving NEM's objective. ETP is driven by SRIs, one of which is to strengthen the public sector through adopting accrual accounting and other initiatives. Under the purview of the Performance Management and Delivery Unit, the SRI Public Finance Lab was in-charge with developing a detailed roadmap and timeline for the implementation of accrual accounting (Ali, 2017). Meanwhile, the AGD has been tasked with ensuring the success of the implementation of accrual accounting. The initiatives undertaken by the AGD are discussed in the subsequent section.

3. Government Accounting Reforms

Parliament handles the majority of the government's financial issues under the Westminster system, whereas the executive body is responsible for the administration of the financial matters. Accounting and reporting procedures and practices are governed by a set of rules. The following are some regulations governing the accounting procedures of both the federal and state governments:

- Federal Constitutions (Revised 1972)
- Financial Procedures Act, 1957 (Revised 1972)
- Audit Act 1957 (Revised 1972)
- Treasury Instructions and related circulars.

According to the preceding regulations, financial transactions in the federal and state governments must be recorded on a cash basis, and cash-based financial reports must be tabled in the parliament.

The Accountant General is the chief accountant of the federal government and has authority over all issues pertaining to federal and state accounting and finances. In accordance with the Treasury Instructions, the AGD is responsible for the following:

- Preparing the federal government of Malaysia's Public Accounts;
- Offering financial and accounting advisory and consulting services;
- Regulating and enforcing accounting rules and regulations;
- Providing financial and accounting data to the appropriate parties/agencies;
- Managing accounting personnel for the government sector;
- Managing of the Pension Trust Fund;
- Enforcing the Unclaimed Moneys Act of 1965; and
- Formulating the Public Sector Accounting Standards.

Financial reports were prepared under the cash basis accounting until 1974 when the modified cash basis was adopted with the issuance of Treasury Circular No. 8/1974. According to Saleh (2002), Malaysia considered adopting accrual accounting in the early 1990s, following the development in Australia and New Zealand. The AGD dispatched senior officers to Australia and New Zealand to observe how the two countries implement accrual accounting. However, due to a lack of top management and political support, the AGD's initiative came to a halt.

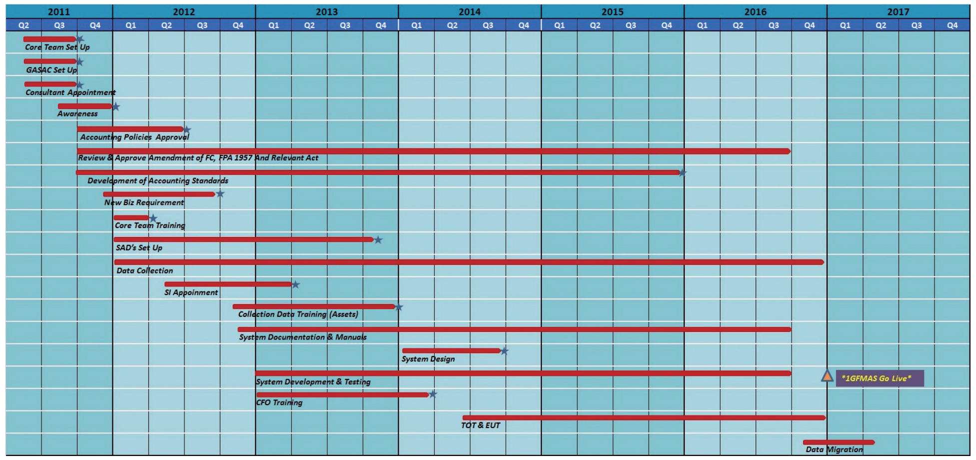
The government's decision to adopt accrual accounting was first announced in 2011. Subsequently, the Secretary General of the Treasury issued a letter in 2014 instructing the federal government to begin the implementation of accrual accounting in 2015, followed by the state governments in 2016. The federal government was to implement accrual accounting using the "big bang" approach.

Figure 3 shows the timeline of the accrual accounting implementation. The plan began in 2011 with the establishment of the Accrual Accounting Implementation Team (*Pasukan Pelaksanaan Perakaunan Akruan,* PPPA) to develop and implement the federal government's accrual accounting system. It also established the Government Accounting Standards Advisory Committee (GASAC) to oversee, confirm, and approve the development, adoption, and implementation of the Malaysian Public Sector Accounting Standards (MPSAS). GASAC included practitioners, professionals, academics, and other parties in their efforts. In the same year, consultants from professional organizations were identified and appointed. The consultants were hired to provide technical assistance in change management, training, compilation of data mainly related to assets, and to develop the new accounting system. Awareness programs and promotions were run to inform all stakeholders about adopting accrual accounting. Moreover, to stimulate change, the PPPA designated the Chief Accounting Officer as Change Ambassador in each ministry and the account departments as change agents. In addition, PPPA conducted training of trainers programs to train selected accountants from each ministry, who will then train the accounting office's respective staff.

In 2012, numerous preparatory steps were taken, including formulating accounting policies, reviewing and approving amendments to applicable statutes and regulations, and formulating accounting standards, training, and data collection. In addition, the charts of accounts were reviewed and amended to ensure conformity with the accrual-based MPSAS. Alongside the development of the accounting system (iGFMAS), the charts of accounts are undergoing ongoing revisions. Various Treasury Circulars and Circular Letters of the Accountant General were issued to inform ministries, departments, and state governments of the accrual accounting implementation and related policies. There is an official portal for accrual accounting (https://www2.anm.gov.my/akruan) that contains information about accrual accounting, MPSAS, and references. On this portal, relevant personnel have access to information, such as the manuals for accrual implementation and for iGFMAS working procedures, and policies pertaining to assets recognition and measurement. The portal can be viewed as a one-stop center for employees seeking information on implementing accrual accounting.

The original goal was to complete accrual accounting implementation in 2015. However, as discussed in Section 4, several obstacles slowed the transition from cash to accrual accounting.

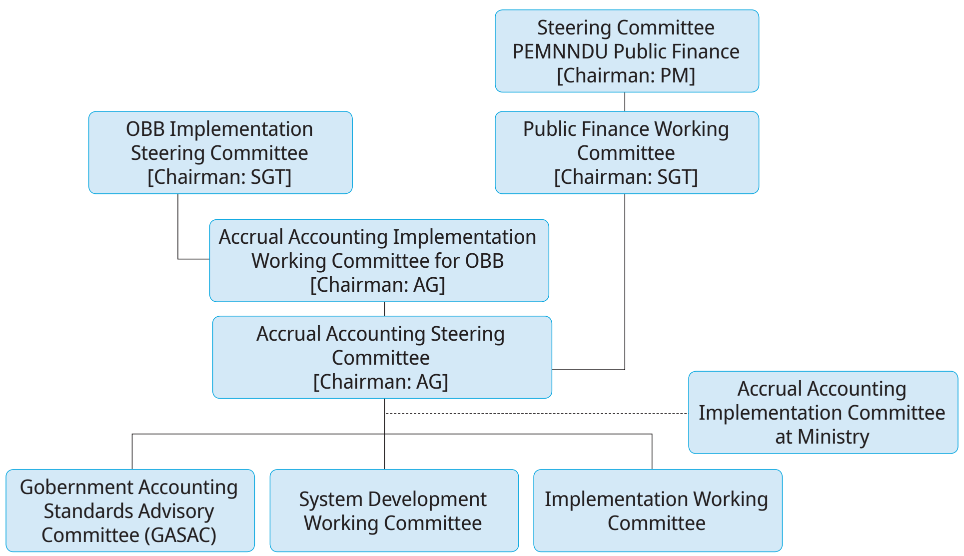
Figure 3. Timeline of the Accrual Accounting Implementation



Source: https://www2.anm.gov.my/akruan/Pages/Timeline-Pelaksanaan-Perakaunan-Akruan.aspx

The AGD subsequently established the governance structure depicted in Figure 4 for the implementation of accrual accounting.

Figure 4. Governance Structure of Accrual Accounting



Note: PEMANDU = Performance Management and Delivery Unit; PM = Prime Minister; SGT = Secretary General of the Treasury; AG = Accountant General; OBB = Outcome Based Budgeting

Source: https://www2.anm.gov.my/akruan/Pages/Struktur-Tadbir-Urus-Perakaunan-Akruan.aspx

The status of the implementation of accrual accounting is monitored by the Accrual Accounting Steering Committee (AASC) (*Jawatankuasa Pemandu*), which is a main committee chaired by the Accountant General of Malaysia. AASC approves the works of three working committees: GASAC, the System Development Working Committee, and the Implementation Working Committee. To ensure a smooth implementation across various ministries and departments, each ministry must establish an Accrual Accounting Implementation Committee that provides quarterly updates to the AASC.

The Auditor General and his office (the National Audit Department) are also involved in the implementation of accrual accounting. In accordance with Articles 106 and 107 of the Federal Constitution and the Audit Act of 1957, the Auditor General is responsible for auditing the federal and state governments' financial statements, financial management, ministry/department activities, and the management of government-owned companies. The National Audit Department (NAD) follows standard auditing procedures in forming their opinion.

The NAD fully supports the federal government's decision to transition from modified cash accounting to accrual-based accounting. The NAD is represented on the three principal accrual accounting committees established by the AGD:

i. The GASAC;
ii. System Development Working Committee; and
iii. Implementation Working Committee.

The NAD is involved in and contributes to issues concerning accounting standards and policies, law and regulations, process and technology, data collection, and training. In supporting the implementation of accrual accounting, the NAD also encountered challenges regarding compliance with the adoption of MPSAS accounting standards, adequacy of asset management, accuracy of investment valuation, and treatment of accounts receivable and accounts payable. The delay in mandatory publication of accrual-based financial statements presented the NAD with additional challenges when conducting audits, as partial compliance with MPSAS was unlikely to reflect a true and fair view of the federal government's financial position and performance.

Accounting Standards

As specified in the Treasury Instructions, the AGD is accountable for establishing accounting standards for the public sector. In 1995, the AGD established a Public Sector Accounting Standard Committee and a Working Group to establish government accounting standards. The purpose of the standard is "to ensure that Public Sector Accounts which include the federal and state accounts are prepared in accordance with approved accounting standards and thus accounting and reporting will be more standardized … [resulting in] greater transparency and comparability of the Public Sector Accounts" (Osman, 2001, pp. 10–11). As shown in Table 1, ten government accounting standards (*Piawaian Perakaunan Kerajaan*, PPK) were issued between 2003 and 2008, with revisions in 2010 and 2012 to align with the International Public Sector Accounting Standards (IPSAS) - Financial Reporting Under the Cash Basis of Accounting.

Table 1. Government Accounting Standards (PPK)

	Title of the Standards	Effective Date	Revised
PPK 1	*Dasar Perakaunan Kerajaan* (Government Accounting Policy)	2003	2012
PPK 2	*Persembahan Penyata Kewangan Kerajaan* (Presentation of Government Financial Statement)	2004	2010
PPK 3	*Akaun Hasil Disatukan* (Consolidated Revenue Account)	2005	2021
PPK 4	*Akaun Amanah Disatukan* (Consolidated Trust Account)	2006	2012
PPK 5	*Akaun Pinjaman Disatukan* (Consolidated Loan Account)	2006	2012
PPK 6	*Pelaburan* (Investment)	2006	2012
PPK 7	*Wangtunai* (Cash)	2007	
PPK 8	*Penyata Akaun Memorandum* (Statement of Memorandum Account)	2007	2012
PPK 9	*Pertukaran Mata Wang Asing* (Foreign Currency Exchange)	2008	2012
PPK 10	*Pemberian Kerajaan* (Government Grants)	2008	2012

Source: Accountant General's website (https://www.anm.gov.my/en/accounting/government-accounting-standards/cash-basis)

In addition to PPK, the government has also developed the MPSAS, which has been adapted from IPSAS with minor modifications to suit the national circumstances (International Federation of Accountants [IFAC], 2013). The Malaysian government signed an agreement with IFAC on February 12, 2013, to incorporate IPSAS into the formulation of MPSAS.

Two committees are responsible for the development and implementation of MPSAS: GASAC and AASC. GASAC is responsible for the development of the standards, whereas AASC approves the application of the standards in preparing government financial reports. The AGD has established a helpdesk to answer any questions regarding MPSAS and accrual accounting.

Table 2 shows the development of MPSAS over 8 years (2013–2021), in which 36 MPSAS were developed and published. By May 2022, the IPSAS Board had issued 44 IPSAS. However, Malaysia has not adopted eight IPSAS (IPSAS 10, 15, 18, 39, 41, 42, 43, and 44).

Table 2. Malaysian Public Sector Accounting Standards (MPSAS)

MPSAS	DESCRIPTION	PUBLISHED
	Preface to Malaysian Public Sector Accounting Standards	March 2013
1	Presentation of Financial Statements	March 2013
2	Cash Flow Statements	March 2013
3	Accounting Policies, Changes in Accounting Estimates and Errors	March 2013
4	The Effect of Changes in Foreign Exchange Rates	June 2013
5	Borrowing Costs	January 2015
6	Consolidated and Separate Financial Statements (Superseded by MPSAS 34, MPSAS 35, MPSAS 36, MPSAS 37 & MPSAS 38)	November 2014
7	Investments in Associates (Superseded by MPSAS 34, MPSAS 35, MPSAS 36, MPSAS 37 & MPSAS 38)	November 2014
8	Interests In Joint Ventures (Superseded by MPSAS 34, MPSAS 35, MPSAS 36, MPSAS 37 & MPSAS 38)	March 2015
9	Revenue From Exchange Transactions	March 2013
11	Construction Contracts	March 2015
12	Inventories	March 2013
13	Leases	August 2013
14	Events After the Reporting Date	May 2014
16	Investment Property	August 2013

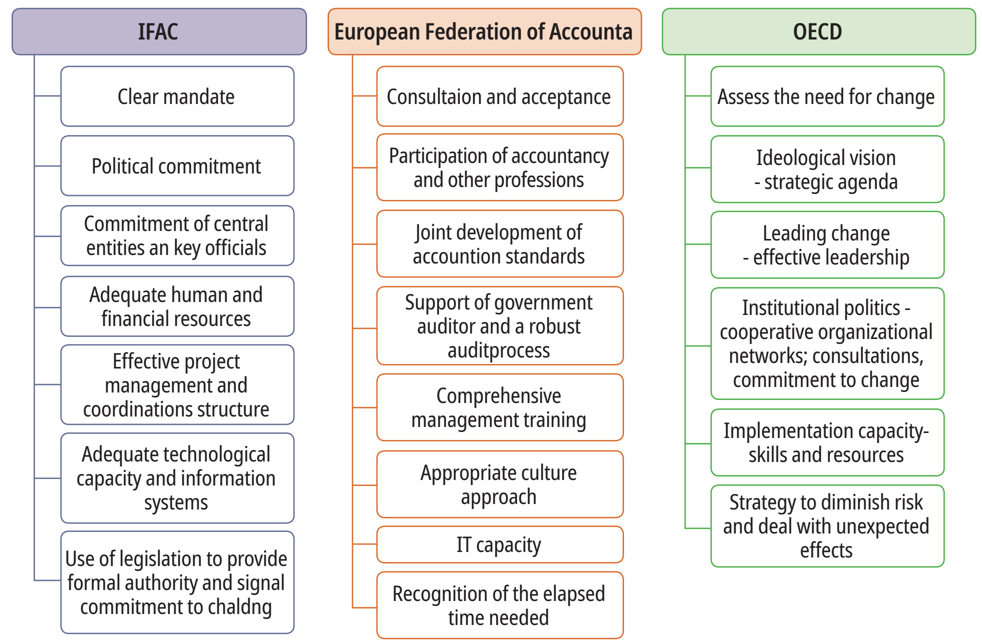
MPSAS	DESCRIPTION	PUBLISHED
17	Property, Plant and Equipment	March 2013
19	Provisions, Contingent Liabilities and Contingent Assets	February 2014
20	Related Party Disclosures	August 2015
21	Impairment of Non-Cash-Generating Assets	March 2014
22	Disclosure of Financial Information about the General Government Sector	August 2015
23	Revenue From Non-Exchange Transactions (Taxes and Transfers)	March 2013
24	Presentation of Budget Information in Financial Statements	June 2013
25	Employee Benefits	March 2014
26	Impairment of Cash-Generating Assets	March 2014
27	Agriculture	March 2015
28	Financial Instruments: Presentation	May 2014
29	Financial Instruments: Recognition and Measurement	April 2015
30	Financial Instruments: Disclosures	November 2015
31	Intangible Assets	April 2014
32	Service Concession Arrangements: Grantor	March 2016
33	First-Time Adoption of Accrual Basis Malaysian Public Sector Accounting Standards (MPSASs)	November 2015
34	Separate Financial Statements	January 2016
35	Consolidated Financial Statements	March 2016
36	Investments in Associates and Joint Ventures	June 2016
37	Joint Arrangements	August 2016
38	Disclosure of Interests in Other Entities	December 2016
40	Public Sector Combinations	October 2021

Source: https://www.anm.gov.my/en/accounting/government-accounting-standards/accrual-basis

4. Challenges to implementing accrual accounting

This section covers the issues and challenges encountered by the Malaysian government during the implementation of accrual accounting, as well as its mitigation efforts. Numerous countries have implemented or begun implementing accrual accounting prior to Malaysia, so ample guidelines are available to learn from. IFAC (2003), EFA (2003), and OECD (Melchor, 2008) conducted research on the experience of other countries in implementing accrual accounting and documented the following issues and challenges in their practice guide:

Figure 5. International Practice Guide



Sources: Isa et al. (2013, p. 32)

Published literature has also reported studies on other countries that experienced implementing accrual accounting; these can be categorized into several components: structure (institutional framework), operational, information system, and human resources (Isa et al., 2013). Asset recognition and valuation is the most recent issue highlighted by contemporary literature and practitioners. The discussion that follows provides additional information regarding the challenges and corrective measures in the context of Malaysia.

Structure (Institutional Framework)

The Malaysian parliament has not yet approved amendments to the relevant acts for accrual-based financial reports since the adoption of accrual accounting in 2011. This has been a challenge because it has created uncertainty regarding the government's overall commitment. According to Isa, Saleh, and Abu Hasan (2013), who explored the federal government of Malaysia, accountants perceive that top management and organizational leadership are highly supportive of accrual accounting. However, the accountants' commitment and attitude toward change are modest. Isa et al. (2013) reported that leaders and accounting staff were reluctant to adopt accrual accounting because it was not mandated and their efforts may be abandoned. As the Act has not been mandated, legislative enforcement cannot be done.

Numerous government initiatives, such as the formation of the Accrual Accounting Implementation Team (PPPA) and the GASAC, attest to the support and dedication of the government's top management to the implementation of accrual accounting. Despite the strong support and dedication of senior management, the full implementation of accrual was delayed due to operational, information system, and human resource issues.

Operational

The government of Malaysia decided to implement accrual accounting simultaneously for all federal ministries (big bang approach). The time frame was set for full implementation in 2015. However, it has been moved to 2023 to facilitate data collection. The AGD also appointed change agents and sponsors as part of its communication strategy to promote accrual accounting and its benefits. Isa et al. (2013) reported that accountants perceived that the promotion must be accomplished more effectively, to engage everyone in the change process and provide information on the overall picture of change and its effect. Moreover, the change agent should be at a higher level than the Head of Accounts Department (i.e., the Secretary General or Deputy Secretary General), and the PPPA should describe the specifics of the action plan (programs, timeline and responsibility) for each ministry in supporting the change toward accrual accounting.

Isa et al. (2013) also reported that the level of awareness is high, but that the level of readiness and commitment from top management varies across ministries. Nevertheless, although the migration path has been determined, there is no strategic plan available, and many ministries await the AGD's instructions on the next steps. Meanwhile, the AGD expects each ministry to proactively plan its next course of action. In certain ministries, a communication gap between the accounts department and the finance department is evident. Several finance departments have requested to participate in meetings and workshops regarding the change initiative. However, the AGD should involve the audit office, parliamentary politicians, and the media to avoid communication gaps. AGD, specifically the PPPA and National Accounting Institute (Institut Perakaunan Negara, IPN), has made commendable efforts to organize briefing sessions, seminars, workshops, and conferences.

Atan and Yahya (2015) found a positive attitude toward change among federal accounting personnel. Meanwhile, Ismail, Siraj, and Baharim (2018) found that change valence, or the belief that a change will benefit the organization, task knowledge, and task availability have a significant impact on change commitment.

Information System

Isa et al. (2013) found evidence of a high information flow, infrastructure, and budgetary support for accrual accounting, as well as the readiness of the organization's infrastructure in terms of office space, computing facilities, and accounting software. In preparation for the accounting system to support accrual accounting, a vendor has been appointed to design the new accounting system (iGFMAS). Interviews show concerns regarding the ability of iGFMAS to support many users, since the earlier system, Human Resource Management Information System (HRMIS), was unable to do so. However, PPPA has assured that iGFMAS will have restricted access, unlike HRMIS. In addition, an adequate knowledge transfer program is required to ensure the sustainability of the work performed by the consultant.

Azmi and Mohamed (2014) studied the Ministry of Education and reported that the employees are prepared to implement accrual accounting. However, they emphasized that the qualifications and skills of the employees to implement the new system are of major concern. Similarly, Yusuf and Jaafar (2018) and Ahmad (2016) likewise reported the difficulty relating to software and technology capability. Saleh, Isa, and Abu Hasan (2022) analyzed the state government's implementation of accrual accounting and found that the accounting staff is satisfied with the accounting software and systems, which have aided their efforts to implement accrual accounting.

Human Resources

Due to the fact that the implementation of accrual accounting will necessitate highly qualified accountants, the AGD has devised recruitment strategy and plan. Undoubtedly, AGD's efforts to enhance the accounting staff's skills and abilities have been tremendous. Isa et al. (2013) wrote that accountants perceived a high level of organizational support for staff training, despite a lack of qualified staff and accountants. The AGD conducted a variety of training programs for all levels of staff, including in-house training, participation in international conferences and courses, and sponsorship of staff's studies at various universities and degree levels. All ministries have conducted competency gap analysis so that their needs can be met. Isa et al. (2013) also reported that organized training varies across ministries, with some ministries having a proper annual training plan, whereas others do not. Many studies conducted in later years also reported the challenge of human resources skills and competency (Mahadi, Noordin, Mail and Sariman, 2014; Yusuf and Jaafar; 2018; Ahmad, 2016).

Ismail, Abdullah, and Zainuddin (2013) investigated the application of IPSAS and suggested that the AGD should provide intensive training to address the lack of staff understanding of the standards. Basnan, Md Salleh, Ahmad, Harun, and Upawi (2015) found that staff competency is an issue that requires attention.

Assets Recognition and Valuation

Accounting for assets is one of the most challenging aspects of accrual accounting implementation. Ismail et al. (2013) undertook specific studies on standards related to accounting for assets. The difficulties reported in implementing IPSAS were related to the recognition, measurement, and disclosure of property, plant, and equipment. According to Mahadi et al. (2014), one of the barriers to implementation is the difficulty in recognizing and valuing assets and liabilities. Basnan et al. (2015) also reported the difficulties in identifying and quantifying heritage assets. Ahmad et al. (2015) reported that incomplete records of assets, liabilities, income, expenses, debtors, and creditors impeded the implementer's ability to construct a chart of accounts and determine the opening balance.

Md Yatim and Norhashim (2016), who conducted another study on accounting practice, found obstacles in obtaining the correct opening balance, particularly for assets.

Given that the assets of the ministry are located in various states, the assets must be identified and valued. Identifying assets, searching for records, and determining their value is a complicated process that has taken longer than expected. In addition to assets recognition and measurement, accounting for heritage and patrimonial assets as well as government assets on third-party land posed difficulties during the accrual accounting implementation phase. There are problems with multiple claims on the asset, as the land and building belong to different government bodies. In addition, the government is responsible for maintaining residential roads and other infrastructure built by private construction companies. MPSAS 17 stipulates that heritage assets must be recorded if they are listed under the National Heritage Act 2005, at cost if the information is available, otherwise at a nominal cost of RM1. Ownership of government assets on third-party land should be recognized only if the government can demonstrate ownership or control, and the asset will be accounted for as property, plant, and equipment. These issues have contributed to the implementation delay of accrual accounting. The AGD has issued guidelines for determining the opening balance and a policy regarding the ownership of government assets on third-party land.

5. Conclusion

The implementation of accrual accounting in Malaysia is made possible by broader reforms to the public sector. The government and its agencies, especially the AGD, execute the implementation with ease by utilizing change management, resource allocation, involvement of all stakeholders, and hiring of consultants. However, the implementation is taking longer than anticipated due to a number of pending issues, such as obtaining approval for the amendments to the Acts, modifying the accounting systems (iGFMAS) to enable the production of both cash- and accrual-based financial reports, and staff competency constraints. Despite the obstacles, the federal and state governments of Malaysia are prepared to fully implement accrual accounting and publish financial statements. The federal government and the majority of state governments can now generate financial reports based on accrual accounting and utilize them for management purposes. Nonetheless, due to numerous changes in government, COVID-19, and the state of the economy, the amendment of the relevant statutes to accrual accounting has not been among the most pressing issues.

The following recommendations are essential for the successful implementation of accrual accounting, based on the Malaysian experience:

1. Amendment of the relevant Act for accrual accounting is essential to signal its mandatory and strengthened commitment among government agencies, senior management, and employees. As the Act was not presented to the Malaysian Parliament, the initial phase of adoption was slow, where many agencies adopting a "wait and see" stance. Therefore, it is imperative that the relevant Act supporting accrual accounting be passed by the Parliament as soon as possible to provide political commitment to the reforms.

2. Change toward accrual accounting requires support from all organization members. Since the government has utilized cash basis accounting for a very long time, substantial efforts must be made to promote cultural change and acceptance of accrual accounting. Continual seminars, briefings, and trainings are required to alter attitude toward accrual accounting.

3. In terms of operations, the Malaysian government has decided to implement accrual accounting at all government agencies simultaneously. The implementation also aimed to be fully realized in a shorter period of time, which proved difficult. Adopting a more reasonable timeline, such as the UK's experience, and piloting accrual accounting in multiple ministries, like in Australia, may be a good consideration. Furthermore, not many countries can implement accrual accounting at the same level of efficiency as New Zealand. Moreover, accrual accounting standards are dynamic and must be evaluated and improved frequently and promptly.

4. Undoubtedly, effective communication throughout the organization is essential to the change management process. The Malaysian government has extensively communicated the change to all government agencies, with a particular emphasis on the top management and accounting department employees. Communication would be improved by involving staff at all levels and relevant departments such as finance and information technology.

Globally, accrual accounting is regarded as superior to traditional cash-based accounting for governments. Consequently, nations throughout the world are adopting accrual-based financial accounting and reporting. However, the transition from cash to accrual accounting is particularly difficult in developing countries. Therefore, proper sequencing of public financial management reforms is necessary to ensure the success of reforms, particularly in resource-constrained countries (Bietenhader and Bergman, 2010). Schick (1998) proposed organizations consider the philosophy of "basic first," where he wrote:

> "politicians and officials must concentrate on the basic process of public management. They must be able to control inputs before they are called upon to control outputs; they must be able to account for cash before they are asked to account for cost; they must abide by uniform rules before they are authorized to make their own rules; they must operate in integrated, centralized departments before being authorized to go it alone in autonomous agencies. Once the basics have been mastered, the public sector should be organized according to the principles of internal control." (Shick, 1998, p. 130)

Thus, it is essential for developing countries to consider the recommendations of Shick (1998) and Bietenhader and Bergmenn (2010), particularly in determining their needs and capacity to implement accrual accounting. Priority should be given to amending pertinent statutes so that everyone is confident and committed to the effort toward accrual accounting. Communication and feedback channels involving all levels of relevant staff must be clear and effective and change agents must be appointed at each agency to support effective communication and foster cultural change. Implementing accrual accounting involves vast amounts of data and information; therefore, the right accounting system and adequate training are vital. A competency gap analysis of the available human resources must be conducted and fulfilled.

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