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Readiness of Malaysian public sector employees in moving towards accrual accounting for improve accountability: The case of Ministry of Education (MOE)

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Abstract

In recent years, there has been increasing number of debates between adoptions of cash accounting versus accrual accounting in government accounting in the Malaysian public sector. This issue arises due to the government needs to determine either to stay on cash accounting or move to accrual accounting. The objective of the study is to determine the readiness of Malaysian public sector employees in the Ministry of Education (MOE) for the implementation of accrual accounting, major concerns together with challenges in moving towards accrual accounting. Finding from this study shows that accounting employees are ready for the implementation of accrual accounting and are willing to move to accrual accounting.

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Keywords: Accrual accounting; accounting employees; readiness; major concerns; challenges.

1. Introduction

While a Malaysian corporate sector is busy to adopt International Financial Reporting Standard (IFRS) as the standard in financial reporting, the same thing happened in the public sector. Malaysian public sector is in a way to change from cash accounting to accrual accounting starting 1st January 2015. Adoption of accrual accounting has

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been approved by Prime Minister; Dato' Seri Mohd Najib Tun Abdul Razak on 11th May 2011 where Accountants General Department (AGD) has been appointed as the head of the agency that is responsible for the implementation of accrual accounting. AGD must ensure that the accounting system is set up in accordance with the main objective of the federal government. The current accounting standards that are set by AGD will be replaced with International Public Sector Accounting Standards (IPSAS). IPSAS are set of accounting standards issued by the IPSAS Board to serve the public interest by developing high quality public sector financial reporting standards and facilitating the convergence of international and national standards. This is to ensure that the adoption of accounting policies in Malaysia is consistent with the international and national accounting standards as IPSAS enables quality and comparability of financial information (Ouda, 2004; Tudor & Mutiu, 2006). In principle, the implementation of accrual accounting will be fully implemented by federal government starting 1st January 2015 using accrual-based IPSAS as a standard in financial reporting and budgeting.

Transition from cash accounting to accrual accounting is an integral part of the whole fiscal reforms. Adoption of accrual accounting requires new systems and appropriate training because it is more complex as compared to cash accounting. Importantly, adoption of accrual accounting also requires greater use of judgment. To become a developed nation with a high income, much paradigm shift is needed especially from accounting employees who are directly involved in performing accounting task (The Malaysian Institute of Accountant [MIA], 2011a). They must gain familiarity with full accrual accounting information to understand the concept of government accounting during the implementation period. However, the readiness of accounting employees in moving towards accrual accounting need to be highlighted first before the real implementation process take place in 2015.

1.1. Research objectives

The principle objective of this study is to determine the readiness of accounting employees in the MOE in moving from cash accounting to accrual accounting. Accounting employees from MOE has been selected as the ministry was identified as one of the pilot project in implementing accrual accounting starting 2014.

Specifically, the research objectives are:

- 1) To determine the readiness of Malaysian public sector employees in the MOE for the implementation of accrual accounting in their organization.
- 2) To determine the major concerns in moving towards accrual accounting.
- 3) To identify challenges in the implementation of accrual accounting.

2. Research method

The basis of the research method consists of questionnaire, observation and interview. The reason of choosing questionnaire, observation and interview is to explore more in-depth information in meeting the objective of the study and provide recommendations for real-world issues and problems. The research was designed using qualitative method as the target of population is based on their expertise in respond to the survey. Thus, a qualitative approach comprises of questionnaire survey, participant observation and structured interview were used in this study to examine a phenomenon within its real-life context.

The questionnaire was designed to generate a primary data from the survey. Questionnaire is develops using 5 point Likert-scale range from "1" indicate as "Strongly Disagree" to "5" indicate as "Strongly Agree". The 5 point scale is used to identify whether respondents are agree or disagree with the statement. Observation conducted in this study is based on participant-observer where researcher itself observed on the situation to delve deeply into the topic of interest. In addition, structured interview were conducted to obtain information on the issues of interest gathered from the observation.

Questionnaires were distributed among 200 accounting employees in the MOE using convenience sampling method. However, observation and interview were conducted during a seminar of ‘Collection Data for Asset and the Implementation of Accrual Accounting’ held by the MOE on 19th November 2013 at Ministry of Finance, Putrajaya. A total of 40 participants were randomly selected to participate in the structured interview. A summary of respondent feedback is presented in Table 2.1 below:

Table 2.1: Respondent Feedback

Method of distribution	Number of respondent	Response return	Response rate
By hand	140	109	77.8%
By e-mail	60	20	33.33%
Total	200	129	64.5%

In addition, Luder’s Contingency Model is used as a guide in explaining the innovation process of government accounting reform as Malaysian has decided to adopt and implement accrual accounting starting 1st January 2015 (Lüder, 1992). In this study, the model is not been used to test the result of hypotheses, but only to identify whether the stimulus for change will speed up or slow down the process of migration to accrual accounting. In this model, strong stimulus is required for a change to occur. With a strong stimulus, the preparers or users of information would change for the better performance. The stimulus for change will speed up the process of migration to accrual accounting if the implementation will be met on time. However, there are still major concerns that MOE had not look into seriously and will hinder the process of change. If these major concerns are not overcome, the process of migration to accrual accounting would be slow down unless the major concerns are taken care of the change might not happened.

3. Discussion of findings

3.1. Readiness for the implementation of accrual accounting

Based on the findings from the questionnaire, it indicates that accounting employees in the MOE are ready for the implementation of accrual accounting and willing to move from cash accounting to accrual accounting. Once accounting employees are ready to give the support in activities related to the implementation process, they will be able to move to accrual accounting as they believe the implementation of accrual accounting is a way to make government accounting more transparent and efficient. The results from the findings indicate that accounting employees are ready to change their mind set and implement accrual accounting. According to Ouda (2004); Falkman & Tagesson (2006); Wyk (2007); Ramadhan (2009) and Becker et al. (2013), accounting employees are ready to change their mind set if they have been exposed to the new accounting system. Thus, it will enhance the readiness of accounting employees for the implementation of accrual accounting. However, the implementation of accrual accounting is not an easy process because there are certain major concerns in moving towards accrual accounting. Challenges such as training, knowledge and skill capacity, top management and timeframe are the factors which will slow down the implementation process of accrual accounting. However, the mindset or readiness of the accounting employees is the key factor to ensure the success of transformation from cash accounting to accrual accounting.

3.2. Major concerns in moving towards of accrual accounting

Based on the findings from questionnaire, it shows that there are major concerns in moving towards accrual accounting in the MOE. The major concerns are knowledge and skills capacity, training, top management, roadmap-approach, external consultant and timeframe.

From the findings, it shows that major concern for knowledge and skills is that the current staffs are not qualified and skilled in dealing with the implementation of accrual accounting. Without highly developed accounting skills, it will slow down and hamper the transition process of accrual accounting. Thus, it can be said

that knowledge and skills capacity must be the main criteria that need to be highlighted before adoption of accrual accounting take place. The finding of major concern for training shows that most of accounting employees has not been exposed to the presentation of financial statement from private sector during the training. Accounting employees will not be able to read and understand the presentation of financial statement used by private sector which is based on accrual accounting if the major concern is kept continue and not rectify. Hence, it will hamper the transition process of accrual accounting.

Insufficient in-house training during the implementation of accrual accounting became the major concern for top management. From the finding, it can be assumed that top management still rely on AGD in giving training to accounting employees during the implementation process of accrual accounting. Insufficient on-going in-house training is also one of the factors that will hamper the transition process to accrual accounting. The finding of major concern for roadmap-approach indicates that AGD provides insufficient roadmap-approach to accounting employees in the transition process of accrual accounting. The consistent of capacity-building programmes with ongoing skills learning should be provided by the AGD as the urgency is needed (The Malaysian Institute of Accountant [MIA], 2011b). Thus, AGD needs to provide sufficient roadmap-approach to the ministry such as seminar, workshops or talks in enhancing the readiness of accounting employees for the implementation of accrual accounting. According to Connolly & Hyndman (2006), a successful of transition to full accrual accounting requires more than five years roadmap-approach to be implemented. Thus, Malaysian government should have a target date in ensuring that certain target could be achieved.

The finding of major concern for external consultant indicates that the concerns arises because government relies on external consultant due to the lack of available in-house skills as manager or senior official are not the persons who are accountable in preparing the financial statements. More dependent on external consultant also would result in high cost of budgeting. Thus, consultants should be chosen from public sector itself instead of hiring external consultant as the scenario for application of accrual accounting in the public sector is not the same as private sector. If government does not take the concern seriously, it will hamper the transition process of accrual accounting. Finally, the finding for likelihood of successful accrual accounting indicates that most of accounting employees said that it takes more than five years to be met. It can be concluded that the actual implementation of accrual accounting is a slow process which takes a long period to be transformed. If all of the major concerns listed are not taken into consideration by government, it will hamper and slow down the process of migrating to accrual accounting.

3.3. Challenges for the implementation of accrual accounting

Based on the findings gathered, it shows that accounting employees in the MOE are ready to move to accrual accounting but there are challenges that need to be rectified before it can proceed. The finding from questionnaire and interview shows that there are six common themes of challenges listed by the respondents. The six common themes are based on training, knowledge, asset, system, top management and timeframe. Findings for questionnaire and interview shows that the lack of training provided, difficulties in collection data of asset and the lack of knowledge become the top three of challenges in the implementation of accrual accounting. Sufficient training should be provided to accounting employees because they are the persons who involved directly in the implementation of accrual accounting. Without proper training, accounting employees will not be able to cope with the new accounting system (Irvine, 2011).

The lack of knowledge may arise as accounting employees have different education background. Current accounting employees should have qualification and skills in dealing with successful implementation of accrual accounting. Without sufficient knowledge, accounting employees will not be able to read and understand the presentation of financial statement in accrual concept. The top three challenges are difficulties in collection data of asset. The government has certain types of assets that do not exist in the private sector such as heritage assets, military assets and infrastructure assets. Thus, the challenges arise when government is required to value the asset and decide which is the best method for valuation as it will reflect the economy analysis (Wyk, 2007).

In addition, findings for probability of current system to integrate with new system, lack of involvement and support from top management and insufficient timeframe is still remain in fourth, fifth and sixth rank for both

questionnaire and interview. The probability of current system to integrate with the new system may due to insufficient capacity and availability of subsystems and functionalities required. The new accounting system must be able to integrate with the current accounting system. Thus, government should prioritize improvement on the existing basis of accounting and budgeting before initiating a step towards accrual.

The lack of involvement and support from top management would arise a conflict between members in the organization as the changes process was poorly managed (Irvine, 2011). An acceptance from accounting employees may not be positive as the top management themselves do not truly give support during the implementation process of accrual accounting. Thus, not only the accounting employees must get ready to change their mind set in accepting the changes, but the top management too, as the implementation of accrual accounting is a national policy which has been set by government. Finally, insufficient timeframe is considered as challenges if the implementation of accrual accounting is too drastic because it would become a burden to the preparers of financial statement. This is because they need some times to fully understand the new concept of accounting system.

Applying the Luder's Contingency Model to this study, it shows that the initiative has been taken by Malaysian government to adopt full accrual accounting starting 1st January 2015. The initiative to change can be considered as a strong stimulus from government as the announcement to adopt accrual accounting has been set as a national agenda. In this context, the preparers of information or accounting employees are willing to change as they are ready to change their mind set and implement accrual accounting. They believed that changing of government accounting system is a way to make government reporting and budgeting more transparent and efficient. The existence of strong stimulus for change at the early stage of innovation process can be considered as successful. Thus, a strong stimulus would speed up the process of migration to accrual accounting.

4. Summary of results

This study discovered that accounting employees in the MOE are ready for the implementation of accrual accounting as they are ready to move from cash accounting to accrual accounting. Accounting employees are also ready to change their mind set and implement accrual accounting as they believe the implementation of accrual accounting is a way to make government accounting more transparent and efficient. However, there are major concerns in moving towards accrual accounting. From this study, it shows that current accounting employees are not qualified and skilled in dealing with the implementation of accrual accounting. Most of the accounting employees were not exposed to the presentation of financial statement used by private sector which is based on accrual accounting during the training. In addition, there is insufficient on-going in-house training and insufficient roadmap-approach provided by the top management and AGD respectively during the implementation process of accrual accounting. Furthermore, over reliance on external consultant would also become major concerns in moving towards accrual accounting as it results in high cost of budgeting. It can be said that transition to accrual accounting is not an easy process which requires several years to be fully achieved. Thus, all of the major concerns need to be taken into consideration and be rectified to ensure the successful of transition to accrual accounting.

Although accounting employees are ready for the implementation of accrual accounting, there are challenges which will hamper the process such as lack of training provided, lack of knowledge, difficulties in collection data of asset, probability of current system to integrate with the new system, lack of support from top management and insufficient timeframe. If MOE does not overcome these challenges, the process of implementation of accrual accounting would not take off smoothly. Hence, it is vital for the Malaysian government to monitors the progress of implementing accrual accounting in all ministries in order to provide an opportunity to demonstrate successful management of its resources.

Applying the Luder's Contingency Model to this study, it shows that there is a strong stimulus from government as the announcement to adopt accrual accounting has been set as a national agenda. Preparers of information or accounting employees are ready for the changes of accounting system as they believed the adoption of accrual accounting would result in better performance of government reporting and budgeting.

5. Limitation of study

This study has some limitations. First, sample of respondents for this study only focus on accounting employees and do not cover opinions from non-accounting employees. This is because non-accounting employees also become parts of the preparer for government financial statement. Second, the interview was only conducted on a small size of respondents. Since findings from this study shows that there is insufficient on-going in-house training and support from the top management, interview should be conducted on a high level of management to get a clear picture of their involvement in the transitional process to accrual accounting.

6. Recommendation for future research

This study offers some recommendations and suggestions for future research. First, future research should be conducted to determine factors in overcome the challenges arise during the implementation of accrual accounting in order to prosper the transitional process. If the challenges have not been overcome, it will hamper and thus slowing down the process of transition to accrual accounting. Second, future research should be conducted on other government sectors as pilot project to compare the results with MOE in assessing their readiness for the implementation of accrual accounting. Finally, future research should be conducted on MOE after the implementation of accrual accounting to see the differences of results before and after implementing the accrual accounting in their organization.

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