



***INTERNAL AND EXTERNAL PRESSURES, FACILITATORS
AND BARRIERS TOWARDS ACCRUAL ACCOUNTING IMPLEMENTATION
IN MALAYSIAN FEDERAL GOVERNMENT***

NORLAILAWATI BINTI SAIBAN

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AND BARRIERS TOWARDS ACCRUAL ACCOUNTING IMPLEMENTATION
IN MALAYSIAN FEDERAL GOVERNMENT**

By

NORLAILAWATI BINTI SAIBAN

**Thesis Submitted to the Putra Business School,
Universiti Putra Malaysia, in Fulfilment of the
Requirements for the Degree of Master of Science in Accounting**

January 2020

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ABSTRACT

Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of the requirement for the degree of Master of Science in Accounting

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NORLAILAWATI BINTI SAIBAN

January 2020

Chairman : Dr. Amalina binti Abdullah, PhD
Faculty : School of Business and Economics, UPM

The Malaysian Federal Government has adopted the modified cash basis of accounting in the preparation of its annual financial statement since the year 2005. Starting from 2011, the government has declared that the Malaysian Federal Government should take over the accrual accounting for better fiscal discipline management and to improve financial and management accounting procedures through complete sight of government assets and financial obligation. Nevertheless, entire implementation of accrual accounting in the government pace few encounters such as the compressed timeframe, concurrent policy and new accounting system development, high training cost as well overseeing the variety itself.

To date, Malaysia is making the final preparations for a journey towards adopting a full accrual accounting standard with the directive to present the Financial Statement for the year 2021 in the Parliament. The objective of this study is to find out the relevant factors determine the implementation. The factors are internal pressures, external pressures, facilitators, and barriers. Besides, this study is significant to encompass the application of a contingency model in accounting change that derived from contingency theory as the research theoretical framework. The total of 171 respondents of this study has been taken with the purposive (judgmental) sampling from all accountants who are attached to the Accountant General Department; Head Quarters and Self Accounting Department located in the Federal Government Administrative Centre of Putrajaya and Kuala Lumpur.

The result indicates that the internal pressures, external pressures, facilitators, and barriers are positively significant influence towards the accrual accounting implementation in Malaysian Federal Government. The internal pressures have a strong positive correlation, while the barriers have a weak positive correlation with the accrual accounting implementation. Meanwhile, both the external pressures and facilitators have a moderate positive correlation with the accrual accounting implementation in Malaysian Federal Government. These findings are important for the government to come hold the appropriate actions to defeat the future challenges in formulating accounting policy, standards, and systems in the public sector. In ordination to reach a successful implementation of accrual accounting for federal or state government, the Accountant General Department need to play more active roles and may improve their planning programs to overcome barriers and to ensure internal pressures, external pressures and facilitators have been rectified.



ABSTRAK

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Master of Science in Accounting

TEKANAN DALAMAN, TEKANAN LUARAN, FASILITATOR DAN HALANGAN KE ATAS PELAKSANAAN PERAKAUNAN AKRUAN KERAJAAN PERSEKUTAN MALAYSIA

Oleh

NORLAILAWATI BINTI SAIBAN

Januari 2020

Pengerusi : Dr. Amalina binti Abdullah, PhD
Fakulti : Sekolah Perniagaan dan Ekonomi, UPM

Sejak tahun 2005, penyediaan dan pembentangan Penyata Kewangan Kerajaan Persekutuan adalah menggunakan asas perakaunan tunai ubahsuai. Mulai tahun 2011, perubahan dasar dan asas perakaunan kerajaan dari tunai ubahsuai kepada akruan telah dilaksanakan untuk pengurusan disiplin fiskal yang lebih berhemat dan seterusnya memperbaiki prosedur perakaunan dan kewangan kerajaan agar dapat melaporkan maklumat aset dan liabiliti secara menyeluruh. Namun, pelbagai cabaran dan halangan perlu di atasi dalam pelaksanaan perakaunan akruan termasuklah kekangan masa, kompleksiti dalam pembangunan sistem perakaunan yang dapat mengendalikan polisi tunai dan akruan secara serentak dalam satu sistem, kos latihan yang tinggi serta isu pengurusan dalam mengawasi perubahan itu sendiri.

Kini, perakaunan akruan telah dilaksanakan dan persiapan akhir sedang diperkemas untuk membolehkan Penyata Kewangan Kerajaan Persekutuan tahun 2021 dengan format akruan dapat dibentangkan di Parlimen. Kajian ke atas pelaksanaan perakaunan akruan Kerajaan Persekutuan Malaysia ini telah dilaksanakan dengan tujuan mengenalpasti faktor-faktor utama dalam menentukan pelaksanaannya. Faktor yang telah dikenalpasti adalah tekanan dalaman, tekanan luaran, fasilitator dan halangan. Selain itu, kajian ini mengaplikasikan teori kontingensi sebagai kerangka penyelidikan dalam mengenalpasti faktor yang menyumbang kepada pelaksanaan perubahan sistem perakaunan. Seramai 171 responden dari kalangan Akauntan yang bertugas di Jabatan Akauntan Negara Malaysia dan Jabatan Mengakaun Sendiri di Kementerian sekitar Putrajaya dan Kuala Lumpur telah dipilih melalui

teknik persampelan bertujuan (dengan pertimbangan) untuk menjawab soal selidik ini.

Hasil kajian telah menunjukkan bahawa terdapat pengaruh signifikan antara faktor tekanan dalaman, tekanan luaran, fasilitator dan halangan dengan pelaksanaan perakaunan akruan Kerajaan Persekutuan Malaysia. Tekanan dalaman mempunyai korelasi positif yang kuat, sementara halangan mempunyai korelasi positif yang lemah dengan pelaksanaan perakaunan akruan. Sementara itu, tekanan luaran dan fasilitator mempunyai korelasi positif yang sederhana dengan pelaksanaan perakaunan akruan Kerajaan Persekutuan Malaysia. Penemuan kajian ini penting bagi membantu pihak Kerajaan melakukan tindakan yang sewajarnya dalam merumuskan dasar, standard dan sistem perakaunan sektor awam serta mengatasi cabaran masa depan. Oleh itu, Jabatan Akauntan Negara Malaysia sebagai agensi penyelaras perlu memainkan peranan aktif dan menambahbaik program pengurusan perubahan untuk mengatasi halangan dan memastikan tekanan dalaman, tekanan luaran dan fasilitator telah dikawal dalam usaha mencapai kejayaan pelaksanaan perakaunan akruan untuk kerajaan persekutuan mahupun kerajaan negeri.

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APPROVAL

I certify that a Thesis Examination Committee has met on 16 January 2020 to conduct the final examination of Norlailawati binti Saiban on her thesis entitled Internal and External Pressures, Facilitators and Barriers Towards Accrual Accounting Implementation In Malaysian Federal Government in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U. (A) 106] 15 March 1998. The Committee recommends that the student be awarded the Master of Science in Accounting.

Members of the Thesis Examination Committee were as follows:

Ahmed Razman Abdul Latiff, PhD

Associate Professor
Putra Business School
(Chairman)

Mohamad Ali Abdul Hamid, PhD

Professor
Putra Business School
(Internal Examiner)

Ridzwana Mohd Said, PhD

Associate Professor
School of Business and Economics
Universiti Putra Malaysia
(Internal Examiner)

Prof. Ts. Dr. M. Iqbal bin Saripan

Deputy Vice Chancellor (Academic
and International)
Universiti Putra Malaysia

Date:

On behalf of,
Putra Business School

This thesis was submitted to the Senate of Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Master of Science in Accounting. The members of the Supervisory Committee were as follows:

Amalina binti Abdullah, PhD
School of Business and Economics
Universiti Putra Malaysia
(Chairman)

Zaidi bin Mat Daud, PhD
School of Business and Economics
Universiti Putra Malaysia
(Member)

Prof. Ts. Dr. M. Iqbal bin Saripan
Deputy Vice Chancellor (Academic
and International)
Universiti Putra Malaysia

Date:

On behalf of,
Putra Business School

DECLARATION

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Signature : _____ Date: _____

Name : NORLAILAWATI BINTI SAIBAN

Matric No. : PBS1413517

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Chairman of Supervisory Committee

Signature : _____
Name : Dr. Amalina binti Abdullah
Faculty : School of Business and Economics, UPM

Members of Supervisory Committee

Signature : _____
Name : Dr. Zaidi bin Mat Daud
Faculty : School of Business and Economics, UPM

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CHAPTER 1

INTRODUCTION

1.1 Chapter Overview

This study is proposed based on the motive in the need of gaining knowledge by generating empirically test data on the internal pressures, external pressures, facilitators, and barriers influencing the accrual accounting implementation in Malaysian Federal Government. Identifying those influencing factors is hoped to support future management strategies and policies towards successful implementation of accrual accounting in Malaysian Federal as well as State Government. This chapter presents the background of the research in Section 1.2, the problem statements in the Section 1.3, the research questions in Section 1.4, followed by the research objectives in the Section 1.5 and the significance of this study in Section 1.6. Finally, the conclusion of this chapter is in the Section 1.7.

1.2 Research Background

Examining statistics apprehended by International Federation of Accountant (IFAC) and The Chartered Institute of Public Finance and Accountancy (CIPFA) International Public Sector Financial Accountability Index, the 2018 Status Report analyzes information from 150 regions across the globe to acquire an intellect of the bases and frameworks used in public sector financial reporting. The results highlighted a progressive image for future accrual accounting and adoption efforts globally. The report proposed that the number of governments reporting on accrual will rise from 25% in 2018 to 65% in 2023. The ongoing activity to adopt accrual accounting across governments of the world is significant. Established on the Index findings, the number of governments reporting on accrual was projected to be more than double in the succeeding five years from 2018. The report projected that, by the end of 2023, 98 of governments (65% of the Index population) will report fully on accrual.

The change from cash to accrual in the government accounting practice was emphasized and a required mean in the process of public sector financial reform. Today, there are increasing numbers of countries and public entities that was elected to implement financial accounting reforms that support accounting change from cash basis to accrual practices (Tickell, 2010; Timoshenko & Adhikari, 2010). New Zealand and Australia are the pioneer governments that adopted accrual basis accounting into their public financial accounting reforms. Other European governments such as Sweden, United Kingdom, France, and The Netherlands have successfully adopted the

implementation to incorporate these exercises. The nations with developing economies concerning Indonesia, Thailand and Egypt are also expecting a positive change towards the accrual accounting implementation as the main strategy under their public sector financial reform.

Within more than 3 decades, many governments worldwide has adopted accrual accounting practices from the private sector that subjecting public goods and services to market forces and pressures to improve the performance of their public sectors (Nor-Aziah & Scapens, 2007; Hyndman & Connolly, 2011; Cohen, Kaimenakis, & Venieris, 2013; Davis & Bisman, 2015). In a positive review, the success of accounting change from cash to accrual in the financial reform will lead to an improved depiction of the financial condition of public sector organizations (Chan, 2003; Dreveton, 2013) and the entity performance (Christensen & Yoshimi, 2003; Christiaens, Vanhee, Manes-Rossi, Aversano, & Cauwenberge, 2013). Accounting change leads to enhance fiscal transparency and accountability with sufficient and reliable information that facilitates effective management of public assets and liabilities (Chan, 2003; Liguori & Steccolini, 2012). Therefore, the accrual accounting implementation is regarded nowadays as self-evident (Lapsley, 2009) and resulted in a growing body of comparative research in public sector financial accounting reform (Timoshenko & Adhikari, 2010).

The Malaysian public sector financial accounting reform starts on December 3, 2010, when Malaysia National Economic Advisory Council (NEAC) successfully documented Malaysia's New Economic Model (NEM). The goal of the NEM is for Malaysia to achieve a status of developing country with high-income and competitive economic status on year 2020. NEM recommended the accrual accounting implementation under the Strategic Reform Initiatives (SRI) for prudent fiscal management and carrying out standards in the public sector financial accounting. Sticking with the commendation, on May 11, 2011, the accrual accounting implementation was mandated by Prime Minister of Malaysia for prudent fiscal management by 2015 as a policy measure in the NEM to address the public sector finance reform. The arrangements were also being made to all federal ministries and departments to adopt accrual accounting in 2015 and will be closely followed by the state governments in 2016 (IPSASB, 2013). The Accountant General Department (AGD) is being appointed as the lead agency for the accrual accounting implementation in Malaysian Federal Government.

The ongoing preparations are taken out for ensuring the successful accrual accounting implementation at the federal government also state government. AGD has implemented the changes through all means. Alternatively, the accrual accounting standards and policies were set up, the new accounting information system being developed, an enhancement in the latest standard operating procedure, assets and liabilities data collection, change in management policy as well as continuous training to upsurge readiness and competencies of all AGD's officers. Among others, the new computerized accrue accounting system is developed to facilitate the accrual accounting

implementation in Malaysian Federal Government is named as Integrated Government Financial and Management Accounting System (iGFMAS). The iGFMAS has started the development on 2012 and excel in its ability to run both modified cash basis as well accrual basis accounting practices starting 1 January 2018. The recent directive from AGD is to issue the Federal Government Financial Statement on an accrual basis by the year 2021. In addition, the training on iGFMAS was held continuously since 2017 to prepare the government's accountant with the new skills and expertise of accrual based accounting (AGD, 2016).

The decision to migrate from modified cash basis accounting to accrual basis accounting has been stipulated as one of the SRI policy measures in the NEM as a mean to improve decision-making processes and strengthen the effectiveness of public financial management of the Malaysian public sector (NEAC, 2010). The accrual accounting implementation will add depth to the accountability and transparency of the management of public sector resources where it allows each government ministries and offices to be financially accountable for their respective revenues and outlays. But as highlighted by Rozaidy, Raman, Rasid, & Kaziemah (2014; 2015), the reclamation of any other financial accounting, accrual accounting implementation in the public sector will be challenging. Thus, it is important to secure a successful implementation, particularly for developing states such as Malaysia to consider the constituent factors (from internal or external pressures), barriers (issues and/ or challenges) as well as the facilitators driven influencing the implementing of accrual accounting.

The internal pressures that influencing the implementation of cash towards accrual accounting refers to the institutional factors or internal people who act upon and limit the accounting change (Scapens & Burns, 2000). Christensen (2002) examined the internal pressures as an internal influencing factor, which driven by the requirement from the public and government's stakeholders for additional financial information, such as asset-liability administration in accrual reporting. Besides, external pressures refer to the organizational environment factors and external people who can influence accounting change. Paulsson (2006) refers external pressures as an external element outside public sectors, that directly and/or indirectly supporting the implementation of public sector accrual accounting. International organizations and professional bodies such as the IFAC, International Monetary Fund (IMF), and the Organization for Economic Cooperation and Development (OECD) have been keyed out as an example of the external parties that gave pressures to implement accrual accounting among countries around the globe.

The facilitators refer to those dependent upon variables that enables the change to progress accordingly along the projected timeframe (Upping & Oliver, 2012). According to Khan & Mayes (2009), the modern government accounting system that aid to the accounting innovation will facilitate the successful implementation of accrual accounting system. Finally, the implementation factors also be coming from the barriers as environmental

surroundings that impede the execution of accrual accounting principles as research by Upping & Oliver (2011; 2012). As Pollanen & Loiseau-Lapointe (2012) research, the accrual accounting implementation in the Canadian government is a failure if the information in technology and standard software are not capable to make do with the new and additional requirements arise from the reform.

Various previous research helps to understand the factors that led to the implementation of accrual accounting in both the private and public sector in developed countries. However, the question arises as to what the factors are and how the relationships between the factors have either enabled or inhibited the change process in Malaysian Federal Government. As an addition, for the purpose of this research, the financial accounting reform, particularly in the public sector refers to the accrual accounting implementation as an initiative to improve public financial accounting practices. Accounting change refers to the growth in the public sector financial accounting reform where the focal point is on the accrual as an alternative of cash accounting. Besides, accrual accounting implementation refers to the migration from cash basis for the adoption of accrual basis accounting practices specifically in Malaysian Federal Government.

1.3 Problem Statements

The Malaysian Federal Government has adopted modified cash basis accounting system since the year 2005 until to date. The problem associated with this accounting includes understatement of expenditure as asset acquisitions were expensed in the year of purchase instead of being depreciated or amortized during its useful period. Additionally, it usually does not supply a way of matching these transactions to specific details of stock. At that place are no accounts receivable or accounts payable records; this can make difficulties for certain tasks that do not receive payment for goods immediately, or have outstanding invoices that have yet to be compensated (Amir, Mehdi, & Mahmoud, 2014).

Additionally, since partial payments are not recorded as such in a cash accounting system, the cash accounting balance sheet may not reflect all monies due. If meticulous records are not kept of these outstanding balances due or owing, then governments may not experience or make payments in a timely manner, if at all. Indeed, Audit reports have over the years, contain reports about how inefficient or ineffective the way government assets are acquired, managed, preserved and disposed and implied in all this is how much public money has gone to waste. The public image of the Government suffers every time the ceilings or roofs of public buildings (stadiums, hospitals, and courts) collapse or seriously leak or when badly maintained roads, drains and other public amenities receive media publicity.

These internal problems regarding the present government accounting system, being on a modified cash basis, which record asset acquisition as operating expenditure has been spotlighted by the Auditor General of Malaysia, Tan Sri Dato' Setia Ambrin bin Buang during the 1st World Congress and Exhibition Infrastructure Asset Management on 22 February 2011. One of the principal shortcomings of the cash basis of accounting is the fact that it neglects to provide governments with complete data on all the total liabilities which take place in a given year as under a pure cash basis of accounting where no liabilities are known (Ouda, 2003). Thus, these internal pressures have been found to be insufficient for public accountability purposes where the identified curbs include limited basis for determining fiscal strategy, budgetary pressures, limited product or service pricing and limited disincentives for fraud and subversion.

As further noted by Sarawak's Minister, Dato' Sri Michael Manyin Jawong who read the Chief Minister's opening speech at National Public Sector Accountants Conference, "The present arrangement does not present a true reflection and real-time position of the government's financial affairs. Expenditures were reported as they were spent and paid for, not as they were incurred. Revenue was recorded as it was received and not earned," he said. The weaknesses as stated above, including the increasing demand of government's stakeholders in requiring additional information towards public spending has become an internal pressures that motivated the public financial accounting to reform and implement accrual basis accounting practices (MIA, 2011).

As early as 2009, the external pressures from external institution, namely the World Bank has called upon Malaysia to stabilize public finances through fiscal consolidation and public financial accounting reform. Consequently, the government pressured each federal ministry to better administration of public accountability through accrual accounting employment as agreed in the NEM. According to MIA (2011b), Malaysia is said to suffer from the middle-income trap as the fiscal economic progress continues to be plagued by a lack of innovation and skills, low level of investments in technology, declining standards in education, relatively high labor cost and sluggish productivity growth. Vision 2020, the national ideal introduced in 1991 to propel Malaysia to become a well-developed and self-sufficient industrialized nation by 2020, is perceived to be unachievable without bold fiscal economic, social and government transformation. Therefore, unsuccessful implementations of transformation from cash to accrual accounting practices will diminish Malaysia into a negative reputation thus hindering it from achieving its position as a high-income developed economy by 2020.

In order to facilitate the full adoption and accrual accounting implementation, Malaysian Federal Government has outsourced iGFMS system to be developed by external consultants, Innovation Associates Group System Integrator (IA), with the aim to go live by January 1, 2015. However, the target to achieve 100 per cent of planned initiatives in full accrual accounting implementation by the year 2015 was not matched due to the system

development vendor was inadequate to meet projected timeline (PEMANDU, 2015). Deputy Director of Accountancy Development Section, AGD commented that the new computerized system to facilitate accrue accounting is scheduled to go live on January 1, 2015 has been postponed to January 1, 2018 (AGD, 2016). The postponement is due to the inability of the new system to cope with the new requirement where there are few modules currently in the development phase. This problem creates a domino effect where it simultaneously defers the accrue system training schedule, dropping behind the testing period and tightening the budget allocation as a new budget is required for the expansion period towards the entire implementation.

The barriers in the Malaysian Federal Government's accrual accounting implementation are lack of qualified accrual accounting skills and knowledge among government's accounting staff, as they have been trained and skilled with cash basis of accounting since long ago, said former Accountant General of Malaysia, Datuk Wan Selamah binti Wan Sulaiman, as stated in IPN (2011). Lower understanding of accrual accounting among government accounting staffs will lead to confusing facts and figures and/ or resisting the changes towards accrual accounting practices. The execution process will face difficult progression if the government's accountants do not indulge and actively take part in the reform process, as they are the ones who are and will oversee carrying the greatest alteration in the accounting area.

The factors in reforming the federal government accounting system from cash basis to accrual basis are completely new and unprecedented. The public sector financial managers in ministries are responsible for overseeing the external pressures and building the internal financial control framework according to the accrual accounting standards set down by the Ministry of Finance. Government accounting officers know the current cash basis accounting system and will have to understand and carry out the reform change to the accrual basis of accounting. Furthermore, the presentation of a new and unfamiliar iGFMAS accounting information system need to be dominated by all accounting offices. Negative elements and attitude will hinder and eventually will delay the reform process. Therefore, it is necessary to carry out this study in order to determine and examine the factors that lead to the implementation of accrual accounting in Malaysian Federal Government and contributed to examine the sanction of accrual basis accounting.

1.4 Research Questions

This study is specified to seek an answer to the question on the motivating and affecting factors influencing the accrual accounting implementation in Malaysian Federal Government. Specifically, the questions are as follows:

1. What are the internal and external pressures that motivate the accrual accounting implementation in Malaysian Federal Government?

2. What are the facilitators and barriers that affect the accrual accounting implementation in Malaysian Federal Government?
3. Is there any relationship between internal pressures, external pressures, facilitators, and barriers towards the accrual accounting implementation in Malaysian Federal Government?

1.5 Research Objectives

This study is objectively based on the motivation to determine the main influencing factors and examine the relationships between each factor towards the implementation of accrual basis accounting in Malaysian Federal Government. The influencing factors under study is the internal pressures, external pressures, facilitators, and barriers that influence the accrual accounting implementation as stipulated in the Malaysian public sector financial accounting reformation.

Therefore, these specific following objectives are underlined:

1. To examine the internal and external pressures that motivate the accrual accounting implementation in Malaysian Federal Government.
2. To examine the facilitators and barriers that affect the accrual accounting implementation in Malaysian Federal Government.
3. To examine the relationship between internal pressures, external pressures, facilitators, and barriers towards the accrual accounting implementation in Malaysian Federal Government.

1.6 Significance of the Study

In 2010, the Malaysian Federal Government agreed to adopt accrual accounting together with financial management initiatives under the radical transformation program based on the recommendation by the NEAC. Besides, the implementation of accrual accounting for the whole reporting and financial decision making had become global trend and spread from developed to developing countries. Detailed reporting generated from accrual basis accounting is believed to support a more transparent and efficient way in managing resource allocation (Liguori & Steccolini, 2012; Hyndman et al., 2014).

Given the scenario, the researcher wondered to find the answer to what are the reasons, what are the factors that motivate and what are the affects towards the accrual accounting implementation in the public sector especially in developing country like Malaysian Federal Government. Furthermore, this study is motivated to analyze and prove in term of statistics regarding the simultaneous influencing factors on the implementation of accrual accounting in Malaysian Federal Government. The findings from this study is hoped to be

useful for interested parties in the government for further reforms and developments, for setting standards, for international agencies as well as for the stakeholder data references.

Towards the reformation of accrual accounting implementation in the Federal Government of Malaysia, a few researchers have carried out studies that contributed in several facets of the reforming process. The Malaysian researchers have explored the contextual interactions between institutions and procedures of accounting change (Ali, 2017), the result of commitment to change among public accountants (Isa, Saleh & Jusoh, 2011), the readiness of public accountants (Azmi & Mohamed, 2014), the resistance to change (Ahmad, 2016), as well as the experience to learn from various successor countries (Rozaidy et al., 2014; 2015). There is, unfortunately, lack of study focusing on the factors elements that determining the accrual accounting implementation or the study about the relationship among the influencing factors and the implementation.

As the researcher has been an accountant, in the civil service of the Malaysian Federal Government, particularly at AGD since 4 August 2003, she had the unique advantage to access into the government project. It is, therefore, the importance of this study is to provide evidence based information to the management of AGD regarding the key factors influencing the accrual accounting implementation in Malaysian Federal Government that will contribute to the success of adoption. The findings of this study are hoped to contribute towards the apprehension and understanding of the factors that can increase the AGD resilient level as to excel in NEM's reformation. It is important to support the AGD in facing future challenges and as well as to give information to the AGD's management and interested parties, including those responsible for formulating accounting policy and standards in planning programs to overcome barriers and facilitate the factors to achieve successful adoption of accrual accounting at all level between Federal and State. In addition, this research is reckoned towards understanding the process of accounting change in Malaysian Federal Government where the accrual accounting implementation in Malaysia is such a sample of developing countries.

Academically, this study adapted the contingency theory as the research theoretical framework. Contingency theory suggests the success of accounting practice depends largely on the power of the organization to adjust with any determining factors that involve modifications in both its external and internal environment (Otley, 1980). This research will applying variables of Upping & Oliver (2011; 2012) which incorporated the development of all contingent factors for the public sector by Lüder (1992) and Christensen (2002), and for the private sector by Innes & Mitchell (1990) and Kasurinen (2002). The research using contingency model will provide complete framework on multidimensional concept between internal and external pressures, barriers to and facilitators of accounting change (Christensen & Yoshimi, 2003; Robinson & Harun, 2004; Saleh & Pendlebury, 2006; Upping & Oliver, 2012; Al-Tholaya,

2013). Therefore, this study is significant to encompass the application of a contingency model in accounting change that derived from contingency theory.

1.7 Conclusion

This chapter provides the introduction for this research and the background of accrual accounting implementation around the globe, including the adoption in Malaysian Federal Government. This chapter also identifies the issues, benefits, and relevant factors to be addressed in implementing accrual accounting in Malaysian context. Three research questions as well as three research objectives regarding the implementation factors are to be discussed further in details on the results and analysis chapter. The contribution of this study is hoped to bring a significant impact to understand the journey of Malaysian Federal Government in implementing accrual basis accounting.

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