Financial Management in the Malaysian Public Sector: The Dynamics of Accrual Accounting in the Administrations of Two Hybrid Statutory Bodies

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Abstract

Purpose: This study aimed to examine the experiences of two statutory bodies, anonymised as Alpha and Omega, in implementing accrual accounting and the challenges they faced in fully implementing the Malaysian Public Sector Accounting Standards (MPSAS).

Design/ Methodology/ Approach: A comparative case study approach was adopted in this study. Secondary data analysis, a series of focus group discussions and semi-structured interviews with key actors involved in implementing accrual accounting in Alpha and Omega were also undertaken.

Findings: The findings revealed that both statutory bodies utilised Malaysian Financial Reporting Standards (MFRS), owing to their business subsidiaries, which are required to prepare financial statements according to MFRS. Alpha and Omega prefer to continue using MFRS instead of MPSAS due to the challenges in preparing consolidated financial statements. Besides, MFRS is appropriate for the needs of their business operations.

Research Limitations/ Implications: This study is confined to two statutory bodies. Future research should consider the impact of MPSAS adoption on other hybrid statutory bodies.

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Practical Implications: The study demonstrates that adopting a different accrual accounting system is challenging for government organisations. It also highlights that MPSAS may not best reflect the operating nature of hybrid statutory bodies.

Originality/ Value: Prior studies focused on government entities' first-time adoption of accrual accounting. This study differs as it examined the challenges government entities face when transitioning from one accrual accounting system to another.

Keywords: Public sector accrual accounting, MPSAS, statutory bodies, Malaysia.

1.0 Introduction

Accrual accounting in the public sector was introduced in the 1990s to enhance the public sector's efficiency, effectiveness, and accountability and improve the costing capability involving government programmes and services (Hoque et al., 2004). Accrual accounting is viewed as a means of providing an accurate assessment of the full cost of service provision in the public sector. Besides, it serves as a performance indicator of whether a programme or activity is efficient. Among the early adopters of accrual accounting in the public sector were New Zealand (Lye et al., 2005), the United Kingdom (Biondi, 2016) and Australia (Barton, 2005). The introduction of International Public Sector Accounting Standards (IPSAS) in 2004 led to the growing adoption of accrual accounting in the public sector worldwide. In order to formalise accrual accounting, the Federal Government of Malaysia introduced the MPSAS for the adoption by government ministries and agencies, including statutory bodies. The Federal Government initially set 1 January 2015 as the target date for full accrual accounting implementation, but it was repeatedly delayed, with the latest deadline set for 1 January 2022.

The delay in implementing MPSAS can be attributed to several factors. Firstly, existing laws, such as the Federal Constitution and the Financial Procedures Act 1957, had to be reviewed and amended. The process is still ongoing. Secondly, systematic data collection for government assets was a painstaking and time-consuming task carried out in phases from 2015 to 2019. Thirdly, the preparedness of the public sector to implement MPSAS was another issue to be resolved. Early research discovered initial resistance among public sector employees (Noordin et al., 2014), although there was greater acceptance towards MPSAS over time (Atan & Mohamed Yahya, 2015; Ismail et al., 2018).

Furthermore, the full-scale implementation of MPSAS is further complicated by the presence of 132 federal and 136 state statutory bodies, in addition to the three levels of government in Malaysia (federal, state, and local). Federal-level statutory bodies include public universities, Bank Negara Malaysia (BNM) and the Securities Commission of Malaysia (SCM). An internal document by the Accountant General's Department (AGD) revealed that 88 out of 132 federal-level statutory bodies had implemented MPSAS as of 31 July 2021. Nevertheless, the adoption rate among state-level statutory bodies was sharply lower, with only 33 out of 136.

Some statutory bodies find adopting MPSAS challenging due to their hybrid nature, which involves both public and private sector responsibilities and business interests. This study examines the experiences of two such statutory bodies, referred to as Alpha and Omega, in implementing accrual accounting and the challenges they faced in fully implementing MPSAS. The study has the following specific four research objectives:

i. To examine the reporting system and accounting standards used by Alpha and Omega and the reason for their usage;
ii. To evaluate the extent to which accounting practices accommodate or conflict with MPSAS accounting conventions;
iii. To ascertain the challenges faced in complying with MPSAS; and
iv. To identify the strategic direction of Alpha and Omega regarding MPSAS adoption.

The rest of the paper is organised as follows. The literature review is presented in Section 2, while Section 3 outlines the research methodology. The two case studies are presented in Section 4. Subsequently, the discussion regarding the study can be found in Section 5, whereas Section 6 concludes the study.

2.0 Literature Review

2.1 Rationale for Accrual Accounting in the Public Sector

Governments worldwide are embracing accrual accounting due to its perceived benefits, such as better information for decision-making (Caruana & Zammit, 2019; Chow & Pontoppidan, 2019; Hyndman & Connolly, 2011; Lye et al., 2005), greater accountability and transparency (Muraina & Dandago, 2020; Sellami & Gafsi, 2019; Sylvia et al., 2018), lower government agency costs (Caruana & Zammit, 2019) and improved public sector efficiency, achieved by shifting from an input-oriented view to an output-oriented one, thereby enhancing management capabilities and economic output (Lampe et al., 2015).

Nevertheless, the actual implementation of accrual accounting has been far more challenging than initially anticipated by the governments. The implementation process took many years for early adopter countries (Buhr, 2012; Hyndman & Connolly, 2011). Furthermore, the process of implementing accrual accounting has been costly (Hyndman & Connolly, 2011; Lassou et al., 2019), complex (Adhikari et al., 2019; Adhikari & Mellemvik, 2011; Jorge et al., 2007) and in some instances, only yielded few benefits (Christofzik, 2019; Gigli & Mariani, 2018; Pollanen & Loiselle-Lapointe, 2012; West & Carnegie, 2010).

2.2 Factors Influencing or Inhibiting Accrual Accounting Adoption

Accrual accounting adoption worldwide has been impeded by several broad factors, categorised as technical, political, and cultural. One of the primary technical impediments to accrual accounting is the lack of trained public sector accountants capable of implementing the necessary reforms (Becker et al., 2014; Gigli & Mariani, 2018; Ismail et al., 2018; Maimunah, 2016; Salleh et al., 2014; Upping & Oliver, 2012). Other technical issues comprise installing appropriate information technology systems (Upping & Oliver, 2012) and a well-defined timeline (Bruno & Lapsley, 2018). Strong political will has been demonstrated to facilitate accrual accounting (Buhr, 2012; Hyndman & Connolly, 2011), while the converse caused implementation delays (Polzer et al., 2019). In addition, cultural factors, such as resistance among public sector employees to embrace accrual accounting, stall such reforms (Becker et al., 2014; Polzer & Reichard, 2019).

2.3 Accrual Accounting in the Malaysian Public Sector

Several studies have been undertaken on accrual accounting in the Malaysian public sector. An early study by Saleh and Pendlebury (2006), which compared the level of accrual accounting in Malaysia and the United Kingdom (UK), discovered that accrual accounting in Malaysia was introduced for managerial accounting and control purposes. Subsequent studies focused on MPSAS adoption. For example, Noordin et al. (2014) examined public sector employees' resistance to change and apprehension that the new accounting system would lead to increased workloads and challenges. Nonetheless, subsequent studies revealed that the public sector employees' readiness increased over time (Atan & Mohamed Yahya, 2015; Ismail et al., 2018) due to initiatives such as workshops, seminars, and training related to accrual accounting. The training helped ensure that public sector employees were equipped with sufficient knowledge and technical skills (Yusof & Jaafar, 2018; Ismail et al., 2018).

Despite enriching the literature, accrual accounting adoption at the federal or state level (Azmi & Mohamed, 2014; Rozaidy & Siti-Nabiha, 2022) and public sector accountants (Atan & Mohamed Yahya, 2015; Ismail et al., 2018). There is a paucity of research on Malaysian statutory bodies, although their adoption of MPSAS is not optimal. Another literature gap is the legal aspect influencing accrual accounting adoption, particularly in the Malaysian context. As a federation, there is a multiplicity of laws regarding statutory bodies which may not necessarily complement one another. Therefore, further investigation is required to examine if these laws promote or inhibit widespread MPSAS adoption.

3.0 Methodology

This study adopted a comparative case study approach to explore the experiences of Alpha and Omega in implementing accrual accounting. The case studies comprised two main phases. In Phase 1, secondary data was collected through a document review analysis of the annual financial statements of these public entities. This process involved examining whether any differences exist in reporting in the targeted period of MPSAS adoption, specifically from 2015 to 2021. Nevertheless, Alpha's most recent publicly available financial statement was the 2018 annual report, although one of its subsidiaries published its annual reports up to 2021.

The primary objective of Phase 2 is to ascertain the major benefits and issues experienced in implementing accrual accounting at both statutory bodies and whether MPSAS can be fully adopted. In Phase 2, two and three rounds of focus group discussions and semi-structured interviews were undertaken with key actors in implementing accrual accounting for Alpha and Omega, respectively. The sessions lasted from an hour to two hours. The interview details are presented in Appendix. All the interviews were recorded with the respondents' consent and transcribed. In addition, key documents such as internal letters, memos, and circulars that key officials of both statutory bodies shared were analysed. Excerpts from these documents for this study were quoted with the gracious permission of Alpha and Omega.

4.0 Findings: Case Studies

4.1 Alpha

4.1.1 Background and Operations

Alpha was established in the 1950s by a minister aiming to improve the social and economic conditions of rural households previously involved in traditional agriculture. It aimed to assist them in becoming modern smallholders, farming for export, and primarily focusing on export-oriented commodity cultivation. Alpha was established as a statutory body under the Land Amelioration Act (Act 1080)[1]. This Act establishes land amelioration boards to promote and execute land amelioration and relocation projects, allocate funds, and address related purposes.

Although Alpha's primary focus was on settlers since its inception, it ceased recruiting new settlers in 1990 following the government's decision to grant Alpha "financial independence" status and transform it into a statutory body. The decision enabled Alpha to generate its own income to support its multiple development strategies in developing various business portfolios. After the government ceased funding in the late 1990s, Alpha launched several private income-generating corporate entities to ensure the completeness of the value chain of its core activities. Among the largest of such entities include Lambda Holdings Ltd., its Group Companies, and Alpha Plantation Management Pvt. Ltd. (formerly known as Alpha Technoplant Pvt. Ltd. prior to its listing on the local stock exchange).

Lambda is Alpha's most significant subsidiary, which focuses on three core business sectors, namely plantations, sweeteners, and logistics. The plantations sector comprises palm upstream (the largest revenue generator), palm downstream, rubber, trading, research and development, renewable energy, and integrated farming. The sweetener division operates under its subsidiary, Gamma Malaysia Holdings Ltd. Refineries, which can be found in several locations around Malaysia. On the other hand, the logistics division is involved in bulking, storage, and warehousing.

When Lambda was listed on the local stock exchange in the 2010s, Alpha established Alpha Investment Corporation Pvt. Ltd. (AIC), Alpha's wholly-owned investment arm, to manage its business activities. It aims to ensure profitable and sustainable investment returns to its shareholders through non-plantation business operations. The primary focus of AIC is hospitality, property, and other strategic investments.

[1]The exact name of the Act has been anonymised.

4.1.2 Reporting System and Accrual Accounting Standards Used by Alpha

Alpha began using Financial Reporting Standards (FRS) approved by the Malaysian Accounting Standards Board (MASB) on 1 January 2006. Following the recommendation of its consultant, Momentum, which is one of the Big Four consulting firms, Alpha started utilising the MFRS. An issue during the initial adoption of MFRS was the inability of certain systems to interface with the group system, requiring them to reference the Financial Module (FI) in System Applications and Products (SAP). There was no staff training for this transition, as the consultant had limited time to prepare the report. Subsequent issues arose as the consultant kept changing. Consequently, there was no overall information from the first consultant appointed by Alpha to perform the integration.

As for its financial reporting requirements, Alpha follows Act 474 and Statutory Bodies (Account and Annual Reports) Act 240 (1980). Alpha is required to submit its financial statements within six months after its financial year-end. This requirement is a new directive, as previous reporting was done within four months. If the financial year ends on 31 December, the financial statements will be ready by 1 April at the earliest. Interviewees also reported issues in the reporting department during April 2022. Since Alpha has publicly listed subsidiaries, it can only prepare consolidated financial statements after announcing them to Bursa Malaysia Securities Bhd. Alpha generally receives its publicly listed subsidiaries' financial statements by mid-April. Thus far, Alpha has managed to submit its financial statements to AGD before the deadline.

Alpha's financial statements (including consolidated reports) are prepared utilising SAP. Nevertheless, a special system is used by settlers for plantation activities, such as buying fertiliser, and for managing socioeconomic development activities, such as administering housing and education loans. In 2018, issues arose as consultants could not tally the outstanding balance between FI and the settlers' system data. The FI displayed the correct total figures, but the settlers' system showed details that did not tally with the total figures. Some adjustments were proposed but verifying the settlers' system data was challenging, prompting the formation of a special task force to resolve the issue.

a) Biological Assets

Biological assets, such as plantation assets, form a significant portion of Alpha's financial statements. The primary issue concerning Alpha's plantation assets is that the listing is not updated in its system primarily because the plantation department does not frequently update its age profile. This situation has forced the finance department to collaborate with the plantation department in manually preparing age profiles. The data input is vital for the finance department to enable asset recognition and disclosure. The issue remains unresolved due to a technical glitch in compiling data from 317 schemes, including internal transitions.

Furthermore, each plantation must regularly update its age profile. The data will be collected from each scheme and sent to the regional level and, finally, the headquarters. An interviewee noted that Alpha is aware that the data has been inconsistent and cannot be extracted directly from SAP. Data inconsistency arises from inappropriate timing and mismatch in the plantation data. In order to overcome this issue, the plantation department has developed a new system that utilises drones to perform routine checks.

The livestock count in the asset listing often mismatches due to the number of dead livestock reported and requires manual rectification. Revaluing livestock using the write-off method has been delayed since last year, as it now requires approval from the Asset Disposal Committee, leading to longer processing times. Impairment is typically performed on livestock in the asset listing, with each impairment assigned a nominal sum in the given currency. Ascertaining the market value of livestock is another issue. Vendors are only keen to disclose the market price or provide a quotation if Alpha is interested in purchasing livestock. Since Alpha has different livestock breeds, obtaining accurate market prices is crucial. Nevertheless, since livestock is not a core business activity, the impact is rather insignificant.

b) Government Grant

Starting in 2022, Alpha began recognising high-valued assets acquired using government grants. This type of asset has been created and recognised under the special asset class. The assets will be fully depreciated without affecting Alpha's profit and loss. The asset's net book value (NBV) is zero, except for motor vehicles, which have a scrap value recorded at a nominal sum.

c) Revaluation of Investments

Alpha is required to perform a valuation every three years through an external valuer for investment properties. The valuer performs a comprehensive valuation in the first year, followed by desktop valuation in the second and third years. The average valuation cost is below USD100,000. The first-year comprehensive valuation costs average USD30,000, while subsequent years for desktop valuation are lower. Valuation costs were reportedly manageable.

4.1.3 The Extent to Which Accounting Practices at Alpha Accommodate or Conflict with MPSAS

Based on a government circular issued on 15 September 2016, Alpha, as a federal-level statutory body, adopted MPSAS starting in 2017. Nevertheless, Alpha reported encountering several issues in implementing MPSAS. One issue is that the group and subsidiaries began using MFRS in 2018, with another 16 subsidiaries adopting MFRS in 2020. Alpha's Board were notified that differences exist between MFRS and MPSAS. Due to these concerns, Alpha wrote a letter to the Ministry of Finance in December 2019, with a copy sent to the AGD requesting exemption from MPSAS adoption. Among the justifications given was Alpha's endeavour to implement various initiatives, including a White Paper, with the main objective of strengthening its accounting system. Similarly, Alpha began a restructuring exercise for its borrowings, restructuring debts and interest payments of settlers, rationalisation of investments and asset disposals beginning in 2019.

The Cabinet approved the Alpha Recovery Plan in October 2020. Subsequently, Alpha signed a document on the issuance of debt financing in December 2020. The reacquisition of Lambda was among the transformation and recovery efforts taken by Alpha in 2021. In January 2020, Alpha had a meeting with the AGD to apply for an MPSAS exemption. Although the AGD concluded that Alpha had to utilise MPSAS, Alpha was allowed to submit a written appeal to the AGD with justifications for MPSAS exemption. Alpha subsequently wrote an appeal letter to the AGD in April 2021.

In February 2021, a session on amending Treasury Circular 3.1 proposed that all statutory bodies must obtain the approval of their respective boards for a suitable accounting framework for 2020. The AGD's decision tree was to serve as a point of reference. Alpha's Board subsequently approved the continued usage of MFRS for its financial statements in a meeting in March 2021. A copy of the meeting minutes was duly sent to the AGD. In December 2021, Alpha had a meeting with the AGD, where the appeal for MPSAS exemption was rejected, as emphasised in a letter from the Accountant General dated later that month. Nevertheless, Alpha will be granted an extension for not utilising MPSAS from 2021 to 2025 but must provide an annual timeline and progress report during this period. In February 2022, Alpha wrote to the Accountant General appealing for a further extension and was awaiting a reply at the time this research was conducted.

4.1.4 Challenges Faced by Alpha in Complying with MPSAS

Alpha has many autonomous departments and subsidiaries with different types of reporting methods. Generally, SAP is preferred, while manual systems are used for dormant companies. Alpha faces several challenges in adopting MPSAS regarding its accounting system due to expectations to comply with the Standard Accounting System for Government Agencies (SAGA) requirements. At the time of the research, the SAGA committee had not recognised Alpha's accounting system. For the SAGA committee to recognise Alpha's accounting system, subsidiaries must meet all the criteria established by SAGA, including adopting MPSAS accounting standards for preparing financial statements.

Since Alpha has publicly listed subsidiaries, it can only prepare consolidated financial statements after making an announcement to the local stock exchange. In order to prepare consolidated financial statements, Alpha uses a consultant-developed template that includes consolidation numbers provided by all subsidiaries. This new template version was used starting in the year ended 2021. The elimination of intercompany transactions is undertaken using this template. Hence, Alpha and its group of companies must practice similar accounting standards in preparing its financial statements. Alpha also faces challenges in appointing auditors for the group company, as they must be the same as Alpha's auditor appointed by the AGD to expedite the auditing process within the Alpha Group.

4.1.5 Alpha's Strategic Direction Regarding MPSAS Adoption

Alpha is still awaiting the outcome of its appeal to continue using MFRS. An interviewee was puzzled regarding why Alpha's application was rejected and wondered which criteria were not met by Alpha. The AGD focused on grants, and the interviewee admitted that Alpha has grants, loans, and debt financing. Nonetheless, Alpha's consultant had stated that it did not meet MPSAS criteria. Another interviewee iterated that Alpha should not be required to apply for an exemption since it has publicly listed companies as subsidiaries. She added that Alpha had a meeting with the Prime Minister's Department, AGD, and the National Audit Department previously, but no justifications were provided for the rejected application.

Interestingly, the interviewees stated that they had no aversion to adopting MPSAS. One interviewee mentioned that:

> *"It is unfair for us to reject MPSAS without a full understanding of the new Standards."* (Alpha Interviewee 1)

Besides, there is a sense of inevitability in eventually adopting MPSAS since Alpha must adopt MPSAS to obtain SAGA certification.

4.2 Omega

4.2.1 Background and Operations

Omega is a federal statutory body established in the 1960s, which operates as a religious financial institution in Malaysia and is headquartered in Kuala Lumpur. Its primary activities include managing individual and group religious activities, depository services, and investment. To date, Omega has millions of depositors and numerous branches across the country.

Omega is a self-funded federal statutory body that annually manages religious excursions in Malaysia by arranging the entire excursion affair. Omega is governed by the Omega Act (Act 1063)[2], which is currently under the purview of a minister responsible for specific religious affairs in the country. As defined in the Act, Omega is more than just an excursion management service provider. It provides religious-based financial services.

Omega is governed by a Board of Trustees (BoT), which is given the jurisdiction to administer funds and all matters concerning devotees' welfare under Section IV(I) of Act 1063. This Act empowers BoT to formulate policies and other related matters required or permitted under the Act. The BoT is fully responsible for Omega's overall corporate governance, including strategic directions and developments and setting goals, policies, and strategies to manage and monitor performance. The Minister provides the BoT with directions on the performance of its functions, and the BoT shall provide the Minister with returns, accounts, and other information related to the property and activities of the BoT from time to time.

Omega administers funds entrusted by Malaysian devotees of a specific religion who save for holy excursions (for specific religious rituals), manages these funds as investments, and provides reasonable returns to the depositors. Section XVI(I) of the Omega Act authorises Omega to receive deposits from devotees for the following purposes: "(a) saving towards excursion of the individual to the religious site and (b) savings for investment or for any other purposes permitted by BoT" [Section XVI(II)].

Omega uses depositors' savings to invest in religious-compliant activities to generate sustainable and competitive returns. Omega mobilises depositors' savings and invests them in major capital, equity and money markets, and industrial, agricultural, commercial, and real estate projects that adhere to religious principles based on the approved strategic assets

[2]The exact name of the Act has been anonymised.

allocation approved by the Minister. Section XX (II) stated that Omega should not exercise the powers of investment without the Minister's approval. Omega's diverse investments in various sectors enable it to fulfil its social obligations regarding excursion operations and offset the associated costs for Malaysian devotees annually.

After deducting various expenses, investment profits are distributed to depositors subject to compliance with the Omega Act on a yearly basis. Omega's profit distributions are fairly competitive given the risk profile of investments, and its payout in recent years has been consistent.

4.2.2 Reporting System and Accrual Accounting Standards Used by Omega

A good accounting and reporting system is essential for Omega to ensure accurate and complete accounting of its operations and investment activities while complying with MFRS requirements. Omega has used an off-the-shelf accounting system, namely the Oracle Accounting and Financial System, since 2007. Omega and its subsidiaries have applied accrual accounting standards since 2000, beginning with the MASB and earlier. Omega, as an entity, and its subsidiaries prepared financial statements in accordance with MFRS requirements.

The Secretary General of the Treasury of the Ministry of Finance issued a letter in December 2016 regarding the application of accounting standards by Federal Statutory Bodies. The letter stated that a Federal Statutory Body that has adopted MFRS must continue to adopt MFRS for their financial reporting from 2016 onwards. The letter also highlighted that the application of MPSAS does not cover the Federal Statutory Bodies whose financial reporting is subject to the supervisory law of BNM, the Security Commission, or the Companies Commission of Malaysia (CCM). Thus, Omega continues applying MFRS requirements based on this understanding and the surrounding circumstances. The reasons for the non-adoption of MPSAS will be discussed in later subsections.

4.2.3 The Extent to which Accounting Practices Accommodate or Conflict with MPSAS

Given the size of Omega's depositors' savings, investment activities, and its interconnectedness with the financial system through deposit placements and exposures to common assets such as banking institutions, BNM has requested quarterly periodic reporting from Omega since the end of 2012 to monitor financial stability risks. Following the Cabinet's decision on 7 December 2018, Omega was placed under BNM's supervision effective from 1 January 2019. In order to operationalise the Cabinet's decision, BNM conducts a supervisory review, including an on-site examination of Omega's books and documents and recommends standards for Omega to adopt to strengthen its resilience and promote its long-term business viability. The reporting frequency has also been increased to a monthly basis on top of a quarterly report.

As stated in the Omega Act 1053 Section XXVI, the provision of the Statutory Bodies (Accounts and Annual Reports) Act 1980 (Act 240) applies to Omega, requiring the accounts to be audited. Omega consistently prepares its financial statements in accordance with MFRS requirements for auditing and reporting to regulatory authorities for better understanding and making it comparable and benchmark against its peers, namely other financial institutions.

The majority of Omega's assets are financial instruments and real estate. These financial instruments comprise equities, private equity funds, fixed income, properties, and money market. All of Omega's investments are religious-compliant and accounted for following MFRS 9 Financial Instruments requirements.

Although there are specific MPSAS for financial instruments, namely MPSAS 28 Financial Instruments: Presentation, MPSAS 29 Recognition and Measurement and MPSAS 30 Financial Instruments: Disclosure, Omega opined that these standards are a simplification of MFRS 9 Financial Instruments and drafted for government-funded statutory bodies. Omega contends that it does not sufficiently cover the scope of its transactions and accounting, as it operates as a federal statutory body generating its own income and expenses instead of accounting for surplus or deficit of government funding.

Other federal statutory bodies with financial instruments and no government funding, such as Omega, the Employees Provident Fund (EPF), and Retirement Fund (Incorporated), apply MFRS for the accounting of their financial statements. The compliance costs for MFRS requirements in 2021 amounted to approximately USD145,000, which included costs incurred for property revaluation, consultation for MFRS requirements, and taxes.

4.2.4 Challenges Faced by Omega in Complying with MPSAS

As mentioned earlier, Omega's fund from depositors grows through new and additional deposits and returns from investments (net of profit distribution). The majority of Omega's portfolio is investments in equity, fixed income, money market, and real estate. The primary goal of equity investing is to generate long-term, competitive returns from capital gains and dividends while maintaining a reasonable risk level in line with market conditions. In addition, the primary goal of fixed-income investment is to generate long-term, recurring income for the funds invested and build a medium-term fixed-income portfolio.

Nonetheless, Omega's investments are not limited to equity, fixed income, money market, and real estate. Omega also engages in other sectors, such as religious-based finance, plantations, property development and construction, hospitality, information technology and marine support through its subsidiaries. Omega's diverse investments in various sectors provide an additional and steady income stream that enables it to cover the rising costs of religious excursion operations while continuing to subsidise the cost of religious excursion for Malaysians annually and distribute profits.

Omega has established many subsidiaries spanning across different sectors. These subsidiaries are registered under the Companies Act 2016 and are subject to many requirements, including the requirements to utilise the Malaysian Private Entities Reporting Standard (MPERS) or MFRS. Therefore, entity and group reporting can be challenging if Omega is forced to embrace MPSAS, as the financial statements must be harmonised. Besides, gap adjustments must be made in accounting for classification, recognition, measurement, and presentation of financial statements. Thus, Omega has to prepare two sets of financial statements based on MFRS and MPSAS requirements, resulting in additional costs for people, systems, and processes.

4.2.5 Omega's Strategic Direction Regarding MPSAS Adoption

Owing to the circumstances explained earlier, Omega continues utilising MFRS. When asked if Omega would consider moving to MPSAS, an interviewee replied:

> *"No, because MFRS comes first."* (Omega Interviewee 7)

Besides, interviewees opined that MFRS is suitable for Omega as MFRS is comprehensive and broadly covers Omega's accounting on the nature of activities. As pointed out further by the interviewee:

> *"I think MPSAS is not applicable as our accounts are publicly available, and we are kind of an international company, so to be comparable, performance-wise, we have to follow MFRS. Also, we need to report to Bank Negara."* (Omega Interviewee 7)

Omega's financial statements are publicly available for reference and comparison and can be benchmarked against other international organisations and its peers from the financial industry. Additionally, interviewees pointed out that Omega is a self-funded federal statutory body that generates its own income and expenses. It does not receive any government funding and reports to BNM periodically.

Nevertheless, Omega has come up with the following coping strategies if it is compelled to do so by the federal government. First, Omega will set up a Steering Committee to steer the directive on MPSAS with periodic reporting to the Board. Secondly, a Working Committee group will be formed to perform a feasibility study and undertake a gap analysis on applying MPSAS in Omega. Thirdly, if required, Omega might engage with the industry subject matter expert for guidance on the MPSAS directive. Nevertheless, MFRS is beneficial for decision-making purposes.

Omega interviewees opined that MPSAS would become irrelevant due to the current trajectory of phasing out statutory bodies such as the pension division. Thus, more statutory bodies will need to obtain their own funding sources through establishing business subsidiaries. In this scenario, subsidiaries must report to the CCM, making MPSAS inapplicable. Furthermore, if the holding company uses MPSAS, the subsidiaries must undertake a gap analysis and prepare two sets of financial statements in accordance with MFRS and MPSAS requirements at the entity and group levels. These activities will incur additional costs on human resources, systems, and processes.

5.0 Discussion

The cases of Alpha and Omega evidently prove that both statutory bodies have applied accrued accounting for many years due to their hybrid nature of having business subsidiaries. These subsidiaries were created to generate income for their respective statutory bodies to achieve financial autonomy and independence. Due to their corporate nature, these subsidiaries are required to abide by securities laws, which include preparing their financial statements according to MFRS. The parent statutory bodies prepare their financial statements in accordance with MFRS for consistency and uniformity. Alpha and Omega have their own comprehensive financial reporting systems. Alpha experienced some initial issues when adopting its console pack, whereas Omega reported no issues with its current system.

Several accounting practices at Alpha and Omega contradict MPSAS accounting conventions. These conflicts primarily emerge from their nature of operations. First, both Alpha and Omega operate as business entities by generating their own income and expenses and do not rely on government funding to finance operations. Therefore, they believe they should not be subjected to the same financial reporting requirements as other statutory bodies that are reliant entirely or largely on government funding. Second, the subsidiaries of business-like statutory bodies, such as Alpha and Omega, must comply with the listing and other regulatory requirements for publicly traded securities, including preparing financial statements according to private sector accounting standards. Third, MFRS is comprehensive and adequately encompasses the nature and operations of statutory bodies operating as business entities. In contrast, MPSAS is more suited to public sector entities that do not undertake business activities and have previously used cash-based accounting.

The primary challenge both statutory bodies face in complying with MPSAS is preparing consolidated financial statements in accordance with MPSAS. The challenge involves restating the financial statements of their business subsidiaries, which were originally prepared in accordance with MFRS, line by line, to align with MPSAS. This process can be time-consuming and potentially costly.

In terms of the strategic direction regarding MPSAS adoption, Omega is reluctant to adopt MPSAS due to the reasons discussed above. Nevertheless, it has several coping strategies if compelled to adopt MPSAS. In contrast, Alpha's reaction is less clear. Concurrently, interviewees conceded that they did not fully understand MPSAS and admitted that it would be unfair to reject it outright. Officially, Alpha has requested to continue using MFRS for reasons that are similar to Omega by justifying that it has business subsidiaries that need to comply with securities laws. Nevertheless, Alpha has received a government grant recently and is undergoing restructuring, which might impact the stance towards MPSAS in future.

6.0 Conclusion

This study examined the experiences of Alpha and Omega in implementing accrual accounting and the challenges they faced in fully implementing MPSAS. Both statutory bodies use MFRS as their business subsidiaries are required to prepare financial statements according to MFRS. Furthermore, Alpha and Omega prefer to continue using MFRS rather than MPSAS due to issues emerging when preparing consolidated financial statements. Besides, MFRS is more appropriate for the needs of their business operations. Apparently, MFRS usage was ingrained among actors at both statutory bodies, which resonated that the accounting principles propagated in MFRS were better suited for their business-like operations. Nonetheless, Alpha and Omega reported pressure compelling them to adopt MPSAS. They emphasised that compelling them would result in higher compliance costs due to the need to reconcile MFRS-based financial statements with those in accordance with MPSAS.

The usefulness of MPSAS-based financial statements is also questionable since both statutory bodies, particularly Omega, are financially self-sufficient and receive no government funding.

This doubt points to a critical issue underlying among similar statutory bodies despite their legal form as statutory bodies, as their nature reflects for-profit entities (in substance). The question remains whether their challenges in accounting and reporting their activities accentuate the need to revisit the renowned conception in accounting, namely recognising “substance” over “form”. Regardless, the issues these statutory bodies face are intricate, as it is uncertain whether these issues can be resolved in the near future. Conclusively, in a nutshell, both public and private spheres of accounting never deviate from their essential purpose. Accounting purports to measure what it is supposed to measure, namely performance and provide information to assist users in making decisions.

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Appendix

Alpha Interviewees

No.	Name	Position	Remarks
1.	Respondent 1	General Manager (Finance)	Introduction
2.	Respondent 2	Accountant	Non-Disclosure Agreement
3.	Respondent 3	Managing Director	Non-Disclosure Agreement
4.	Respondent 4	Finance Director	Historical background Issues Regulatory requirements
5.	Respondent 5	Senior Accountant	Historical background Issues Experience sharing Regulatory requirements
6.	Respondent 6	Accountant (Senior Assistant Director)	Historical background Issues Experience sharing Regulatory requirements
7.	Respondent 7	Accountant (Assistant Director)	Experience sharing
8.	Respondent 8	Accountant (Assistant Director)	Experience sharing
9.	Respondent 9	Accountant (Assistant Director)	Experience sharing

Omega Interviewees

No.	Name	Position	Remarks
1.	Respondent 1	Head, Group Shared Services	Introduction
2.	Respondent 2	Corporate Communication Department	Non-Disclosure Agreement
3.	Respondent 3	Head, Group Shared Services	Preliminary data collection
4.	Respondent 4	Financial Operations Director	Preliminary data collection Overview of financial practices
5.	Respondent 5	General Manager (Finance)	Preliminary data collection
6.	Respondent 6	Head, Group Shared Services	Historical background Issues Regulatory requirements
7.	Respondent 7	Financial Operations Director	Historical background Issues Experience sharing Regulatory requirements
8.	Respondent 8	General Manager (Finance)	Experience sharing