

Transforming Public Sector Financial Reporting in Malaysia: Institutional Pressures and the Shift to Accrual Accounting

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Abstract

The transformation of public sector financial reporting has become a global priority as governments seek to enhance transparency, accountability, and fiscal governance. A key reform initiative involves the transition from traditional cash-based accounting to accrual-based accounting systems aligned with international standards. This study examines the transformation of public sector financial reporting in Malaysia by analysing the institutional pressures and challenges associated with the adoption of accrual-based accounting. Drawing on Institutional Theory and New Public Management (NPM), the study explores how coercive, mimetic, and normative pressures influence the adoption of accrual accounting reforms in the public sector. Using a conceptual research approach, this paper synthesises existing literature, theoretical perspectives, and policy documents to develop an integrated understanding of the factors affecting the implementation of accrual-based financial reporting. The analysis highlights several key barriers, including limited technical expertise, inadequate information systems, resistance to organisational change, and weak institutional readiness. Although the adoption of Malaysian Public Sector Accounting Standards (MPSAS), which are aligned with the International Public Sector Accounting Standards (IPSAS), represents a significant step toward improving financial transparency, the reform process remains gradual and uneven across government agencies. The study suggests that successful implementation of accrual-based financial reporting requires stronger institutional capacity, continuous professional training, improved digital infrastructure, and greater policy coordination among public sector institutions. By integrating institutional and governance perspectives, this research contributes to the growing literature on public sector accounting reforms in developing economies and provides insights for policymakers seeking to strengthen financial reporting systems and public accountability.

Keywords: Public Sector Financial Reporting, Accrual Accounting, Institutional Theory, Mpsas, Malaysia

Introduction

Over the last few decades, governments around the world have faced increasing pressure to ensure that public sector financial reporting is transparent, accountable, and reliable. This pressure largely arises from growing public demand for better governance, fiscal discipline, and responsible management of public resources. In an era where citizens, international organizations, and financial markets closely scrutinize government performance, the quality of financial information produced by the public sector plays a vital role in shaping public trust and supporting informed decision-making. As a result, many countries have undertaken significant public sector accounting reforms, most notably transitioning from traditional cash-based accounting systems to accrual-based accounting frameworks. These reforms are often influenced by global governance trends, international financial reporting standards, and the pursuit of greater comparability and transparency in government financial statements (Brusca, Cohen & Rossi, 2023; Alsharari, 2022).

From a theoretical perspective, public sector accounting reforms are frequently interpreted through institutional theory, particularly the concept of institutional isomorphism, which explains how governments adopt internationally recognized practices to gain legitimacy, credibility, and alignment with global standards (DiMaggio & Powell, 1983). The adoption of the International Public Sector Accounting Standards (IPSAS) has become a key driver of these reforms, encouraging governments to improve financial reporting practices by providing more comprehensive information about assets, liabilities, revenues, and expenses. Accrual accounting, therefore, is widely viewed as a mechanism that enhances transparency, strengthens accountability, and supports long-term fiscal sustainability by presenting a more complete picture of government financial performance and position (Christiaens et al., 2015; Alsharari, 2022).

In the Malaysian context, the transition towards accrual accounting represents a major component of broader public sector modernization initiatives. The Malaysian Administrative Modernisation and Management Planning Unit (MAMPU) has played a significant role in initiating reforms aimed at improving government financial management and reporting practices. The move toward accrual-based financial reporting was introduced gradually to provide a clearer and more comprehensive understanding of the government's financial position, enabling better policy planning and resource allocation (MAMPU, 2023). This transformation also reflects Malaysia's effort to align its public sector governance with international best practices and to strengthen institutional accountability mechanisms.

However, despite the recognized benefits of accrual accounting, the implementation of such reforms remains complex and challenging. Many governments, particularly in developing countries, face significant obstacles including limited technical expertise, inadequate information systems, resistance to organizational change, and insufficient coordination across public sector institutions. These challenges often slow down the reform process and reduce the effectiveness of financial reporting improvements. In Malaysia, studies have indicated that the adoption of accrual accounting at the government level has progressed unevenly due to institutional and practical constraints such as limited technical capacity

among public sector accountants, persistence of traditional bureaucratic practices, and incomplete integration of financial management systems (Gould, 2023; Saleh & Hassan, 2021).

Furthermore, the transition to accrual accounting is not merely a technical accounting reform but also a broader governance issue that involves institutional culture, stakeholder expectations, and accountability mechanisms. In some cases, organizations may adopt accrual accounting primarily to comply with policy directives or international expectations rather than to fundamentally improve financial management practices. This phenomenon reflects institutional isomorphism, where governments adopt global standards to gain legitimacy without fully internalizing the underlying principles or operational changes required (DiMaggio & Powell, 1983; Brusca, Cohen & Rossi, 2023). Consequently, inconsistencies in the application of accrual principles can affect the reliability, comparability, and usefulness of government financial reports.

These issues have broader implications for public trust, fiscal sustainability, and governance effectiveness. Reliable financial reporting is essential for stakeholders such as policymakers, Parliament, oversight bodies, and citizens who rely on accurate information to evaluate government performance and make informed decisions. Delays, inaccuracies, or overly complex financial reports may undermine public confidence and weaken accountability mechanisms within the public sector. Therefore, understanding the underlying challenges affecting the implementation of accrual accounting reforms is crucial to improving the quality and effectiveness of public sector financial reporting.

Against this background, this study aims to examine the key issues and challenges facing financial reporting reforms in the public sector, particularly in relation to the implementation of accrual-based accounting in Malaysia. Specifically, the study seeks to identify the main challenges encountered in implementing accrual accounting, examine the institutional, technical, and human factors that influence the quality of financial reporting, and evaluate the implications of these challenges for public accountability and transparency. By providing deeper insights into the complexities of accounting reform, this study contributes to the growing body of literature on public sector financial management, particularly within developing country contexts. The findings are expected to provide practical value for policymakers, public sector accountants, auditors, and researchers, especially in guiding future capacity-building initiatives, institutional reforms, and policy development aimed at strengthening financial reporting practices. In addition, given the increasing role of digital technology and artificial intelligence in public governance (Kassahun et al., 2023), this study also offers insights into how technological developments may influence or support the ongoing transformation of public sector accounting systems.

Literature Review

In simple words, financial reporting in the public sector involves the processes of recording, summarising and presenting financial information in relation to the activities of the government with the aim of being accountable, transparent and providing decision-useful information. Historically, public sector organisations utilised cash accounting where only cash receipts and cash payments were recorded. However, the move to and the reforms associated with using accrual accounting are accompanied with the notion of accounting for

economic events at the time they take place (Alsharari ,2022; Benito et al, 2022). This provides a fuller picture to the reader of the financial position and performance of the organisation. Related to these principles are the development of International Public Sector Accounting Standards (IPSAS), which provides a global standard of accrual accounting financial reporting in Governments around the world. Adoption of IPSAS by national and sub-national governments allow comparisons to be made across different jurisdictions improving, transparency and fiscal responsibility (Christiaens, et al, 2015). the concepts of accountability, transparency and governance are also important when defining financial reporting. Accountability is the obligations of the government to report on and be accountable to its stakeholder for their financial activities. Transparency involves the provision of access to the information. These definitions are important for assessing the relevance and quality of public financial reporting systems. Also, the development of New Public Management (NPM) described by Hood (1995) emphasises the importance of efficiency and performance measurement systems and encourages the introduction of reforms in accounting and financial reporting to reflect the private sector associations and expectations.

This paper uses two well-known theoretical lenses: institutional theory and new public management (NPM), to investigate reforms of financial reporting in the public sector. Institutional theory, more specifically the theory of institutional isomorphism (DiMaggio and Powell, 1983) demonstrates how organizations in the public sector adopt the same structures/practices when operating in the same country (i.e. accrual accounting) not so much as a sign of effectiveness, but instead to enhance and obtain legitimacy, political acceptability, or external funding. This will clarify why countries may adopt IPSAS as an attempt to satisfy normative pressures, rather than fully integrating it into the decision-making processes. On the other hand, new public management theory (Hood, 1995) is based on the demands for efficiency, transparency and performance-based accountability that are often focused on aspects learned from the private sector. As such, NPM has had an important effect on the nature of accounting reforms internationally by promoting outcome-focused reporting and adopting accrual accounting in the public sector. Collectively, these theoretical frameworks provide an understanding of the motivations for and barriers against institutional diffusion that may lead to performance gaps, and they will help the analysis to address reforms made for legitimacy and accountability purposes rather than for good governance and management.

New research explores the factors that can enable or constrain reform public sector financial reporting. Based on Alsharari (2022) provided a systematic review of global attempts to adopt accrual-based accounting and found although the financial reporting reforms are gaining adoption, the strength and quality of implementation is inconsistent and still contingent on local context influenced by political and institutional factors and technical limitations. Benito et al. (2022) demonstrated similar patterns with the caveat that while governments have adopted an accrual-based frameworks in their reporting, no common standards exist and great inconsistency exists in how these frameworks are applied. Comparing international experiences, Brusca, Cohen, and Rossi (2023) contend that countries respond very differently and vary by level of readiness, and may be presented differently and how outcomes vary, due largely to governance procedures, human capital and organizational culture that is receptive to change. Christiaens et al. (2015) make a

comparison of Spain, Belgium and Austria in Europe and point out a contextual variable that was important to the adoption of IPSAS and the implementation of the Changes in reporting formats.

In the case of Malaysia, Saleh and Hassan (2021), noted challenges in terms of constrained human capital, weakness of technical infrastructure, and lack of a sense of ownership in the reform implementation by public servants. The MAMPU report (2023) pointed to the improvements in accounting but also finish down with challenges and -a large number of public agencies were not fully enshrined to apply consistent standards while generating real-time data. The research highlights a need for more sustainable thought leadership from the agencies involved to realise their proposed pathways, and re-emphasised issues with context. It suggests that, if reforms are going to be successful, it is not only about standards being implemented but the successful implementation depends on how those standards are embedded in organisational perspectives of accountability systems, external accountability systems, or institutional culture.

Despite the rapidly growing body of literature focusing on public sector accounting reforms, many serious gaps remain. Most studies have focused on either high-income countries or conducting international comparisons without meaningfully situating the issues within developing countries like Malaysia. For instance, while looking at global reforms from a developing country perspective, Alsharari (2022) and Benito et al.(2022) on the other hand, tend to have high-level discussions of challenges but do not really address the micro-level contextual realities of the Governments. Existing literature is primarily focused on the technicalities of implementation of IPSAS standards (i.e., accounting treatment, financial disclosures) and does not address organizational and behavioural aspects of the issue (i.e., bureaucratic inertia; theoretical components of change management; organizational learning). In their study of issues related to the adoption of IPSAS in Malaysian local governments, Saleh and Hassan (2021) raised similar points but suggested that more empirical research is needed to identify why reforms appear to stall even when formal policies exist. There are few studies which have considered the ways that digital transformation and emerging AI technologies may enhance or impede public financial reporting. Kassahun et al. (2023) highlight that the future of financial accountability may be shaped by digital governance tools, yet this remains a relatively undeveloped area of focus in public sector accounting literature. By addressing the mentioned gaps, it may aid in creating more contextualized and practical solutions to issues related to public sector financial reporting.

Underlying Concepts

Accrual-Based Accounting Adoption

Most commonly, many public institutions applied cash-based accounting that accounts for transactions when cash is received or paid. While straightforward, it does not always provide an accurate reflection of an organization's financial situation. In contrast, accrual-based accounting (ABA) accounts for revenues when earned and expenses when incurred, providing a better reflection of both financial position and performance. Therefore, ABA has been increasingly marketed globally to increase fiscal transparency and accountability. Despite its merits, ABA's adoption has been uneven and multifaceted. Alsharari (2022) identifies the way implementation usually proves patchy due to challenges within coordinating law,

administration, and technical environments. Similarly, Benito et al. (2022) substantiate the tension between the extensive policy ambitions driving ABA reforms and the limited practical capacity of most public sector organizations to implement such changes effectively.

Institutional Pressures and Isomorphism

Public organizations often go through various types of institutional pressures that influence their behaviour and decision-making. DiMaggio and Powell (1983) have classified these pressures into three main categories, namely, coercive, mimetic, and normative. Coercive pressures are from external forces, such as international institutions such as the IMF or World Bank, insisting on specific reforms as conditions for financial assistance or funding. Mimetic pressures arise due to governments imitating the actions of similar nation most often OECD members in becoming seen as modern or successful. Normative pressures are from growing professionalization of public sector accounting and world-wide advocacy of best practice by professional bodies and institutions of higher learning. Accordingly, governments copy the same accounting reforms, such as accrual-based accounting, to enhance their legitimacy on the global stage. However, whenever these reforms are implemented without adequate concern for local capacities and readiness, they may precipitate symbolic compliance rather than actual institutional change.

Public Sector Reform and New Public Management (NPM)

Public sector reform in the 1980s and 1990s was characterized by the rise of New Public Management (NPM), a phenomenon that sought to bring private sector efficiency principles into managing the public sector. Financial reporting system reform was an important component of NPM, aimed at making government business more accountable, open, and performance oriented. Hood (1995) argues that some core practices such as performance-based budgeting, output measurement, and accrual-based financial reporting emerged directly from the NPM agenda. These tools were meant to shift focus from inputs and processes to results and outcomes and align public sector management more with businesslike practice. However, it has been maintained that these reforms are ideologically driven and are not necessarily well-suited to the character of and unique goals of the public sector. In some cases, forcing private sector paradigms led to unforeseen consequences, which challenged the appropriateness and effectiveness of NPM-inspired reforms in other public sector contexts.

Implementation Capacity and Resistance to Change

The proper implementation of public sector accounting reforms such as accrual accounting and IPSAS is often hindered by strong internal barriers. The key constraint is the lack of high-quality human resources equipped with the know-how to manage and operate new financial systems. Legacy accounting systems are in most cases obsolete and technically incompatible with IPSAS demands, which is a challenge and requires huge resources for the transition phase. In addition, there is also cultural resistance within civil servants who can be resistant to altering established practices or fear greater accountability due to more open reporting. Saleh and Hassan (2021) document these issues in the Malaysian context, observing how institutional drag and capacity limitations have restricted advancements. Likewise, MAMPU (2023) confirms that despite rigorous regulatory promotion, actual take-up of such reforms has been incremental, citing the policy intention vs. delivery gap.

Technological Adaptation and Digital Accountability

The digital revolution, and in particular advances in artificial intelligence (AI) and data analytics, has vast potential to transform public sector financial management. These technologies can elevate the precision of reporting, boost fraud detection, and improve transparency and accountability in government operation. Kassahun et al. (2023) underscore the fact that AI holds significant potential to reinforce accountability mechanisms. However, there is a caution that such devices come with certain intrinsic risks like algorithmic bias, transparent decision-making, and misuses. These considerations serve to underscore the importance of ethical and responsible deployment. Despite the probable benefits, many public organizations fall behind in digital innovation. They tend to face great gaps in digital infrastructure, technical capabilities, and governance systems, which limit them from applying AI and data analytics effectively and ethically.

Constructs

Institutional Pressures and the Adoption of Accrual-Based Accounting

Governments can adopt accrual-based accounting (ABA) not only for improved fiscal management, but also as a response to institutional pressures. These might include mandates or international organizations' expectations such as the IMF or World Bank (coercive pressures), wanting to emulate regional or global peers (mimetic pressures), or professional norms and international best practices pressure (normative pressures). But when such alterations are driven primarily by the aspiration to gain external legitimacy, ABA implementation can be symbolic without the required systemic and behavioural changes for real impact.

Accrual Accounting and Financial Transparency

Conceptually, accrual accounting enhances financial visibility and supports better governance. It allows for detailed presentation of public assets and liabilities, allows for better policymaking based on net worth and service cost, and makes financial performance comparable across sectors and countries. Brusca et al. (2023) caution, however, that the benefits depend heavily on the quality of the available data and the users' familiarity with accrual principles. Without these pillars, hoped-for returns in transparency and accountability will not materialize.

Implementation Challenges and Institutional Readiness

Successful ABA implementation is highly linked to institutional and technological readiness. Some of the most significant ingredients include having experienced accountants familiar with IPSAS, the capacity to upgrade modern-day IT systems, and a reform-committed leadership. As highlighted by PwC (2022) and Saleh & Hassan (2021), many reform efforts fail since such essential prerequisites are lacking, leading to stalled or ineffective implementation.

Artificial Intelligence, Digital Tools, and Accountability

New technology such as artificial intelligence (AI) and data analytics opens new opportunities for public accountability. Automation can reduce human errors, accelerate financial reporting, and identify patterns of corruption or abuse. But there are also threats. Without transparency and governance, AI systems can produce biased outcomes or make unseen decisions that undermine trust. Kassahun et al. (2023) emphasize the need for strong

governance mechanisms and adherence to ethical AI norms to ensure technology tools enhance rather than limit accountability.

Methodology

This study employs a non-empirical, theory-building strategy to construct a deeper conceptual understanding of public sector financial reporting reform. Rather than testing hypotheses to fieldwork or experimental methods, the study relies on combining existing literature and practice knowledge. Unlike empirical studies that rely on primary data collection, conceptual papers build theory and generate insights by integrating diverse strands of literature and policy evidence (Jaakkola, 2020).

Specifically, the study considers theoretical and practical developments in public sector financial reform across country contexts; Synthesises multidisciplinary knowledge, drawing on accounting, public administration, information technology, and sociology. Constructs a conceptual framework to explain the interdependence and richness of institutional, technological, and cultural conditions that determine reform outcomes.

This strategy is justified on two grounds:

Fragmentation in the literature: Existing research tends to examine discrete factors without explaining through an integrated explanation why some reforms succeed and others fail or flounder.

Theoretical integration deficit: There undoubtedly is an imperative for integrating institutional theory, technological capacity, and cultural resistance into a coherent theory to inform both policy and academic scholarship.

Data

Owing to the conceptual nature of the study, all the data is secondary and drawn from three wide categories:

1. Peer-reviewed scholarly literature:

The sources provide theoretical context and worldwide empirical evidence on change in public sector accounting. Alsharari (2022), Benito, Brusca, and Christiaens (2022) are the key contributors.

2. Seminal theoretical frameworks:

The study is based most significantly on institutional theory (DiMaggio & Powell, 1983) and New Public Management (NPM) (Hood, 1995), and between them they cover the analysis field of motivation and constraint towards reform.

3. Policy documents and implementation reports

Reports from governments and professional bodies, such as MAMPU (2023) for Malaysia and PwC (2022) for global trends, are used to provide practical, in-practice information about the type of reform process and challenges. The blending of policy and scholarly sources provides an even higher conceptual balance that brings together theoretical sharpness and implementation realities.

Discussion

Relevance of Key Concepts to the Problem

Public sector organisation (PSO) financial reporting serves a pivotal role in ensuring transparency, accountability and governance. Accrual accounting usage, encouraged by worldwide standards such as the International Public Sector Accounting Standards (IPSAS), aims to show comprehensive, cohesive and comparable financial data (PwC, 2022). However, cash to accrual accounting conversion is a gigantic problem for most jurisdictions, including Malaysia. These fundamental concepts of accountability, transparency and stewardship are the building blocks of financial reports in the public sector. They provide for a guarantee of effective management of the public money as well as the facts used in the financial statements really mirroring the economic position of governments (Christiaens et al., 2015). Despite attempts by nations to embrace accrual accounting, real-life challenges such as a lack of capacity, resistance to change and technical complexity continue to exist (Benito et al., 2022).

Under Malaysian Public Sector Accounting Standards (MPSAS) in Malaysia, accrual accounting implementation demonstrates global reform efforts. System readiness problems, human capacity and legal framework convergence persist and limit full implementation (MAMPU, 2023; Saleh & Hassan, 2021). These indicate the need for building for institutional capacity along with greater stakeholder commitment toward achieving the desired results of financial reporting reforms.

Theory and Practice Integration

Theoretical foundations of public sector financial reporting reforms include Institutional Theory and New Public Management (NPM). NPM focuses on effectiveness, result-driven management and accountability and instils private-sector philosophies in the public administration (Hood, 1995). Institutional theory, on the contrary, describes the way organisations accommodate external environment pressures such as societal expectations, legislation and professional norms (DiMaggio & Powell, 1983). Empirical evidence indicates a discrepancy between theory and reality. For instance, despite the threat of accelerated financial decision-making, as well as the allocation of resources, empirical studies in Australia, the UK and Malaysia are not uniform (Brusca et al., 2023; Saleh & Hassan, 2021). In Malaysia, whereas adoption of MPSAS continues, some of the areas such as shortage of skilled personnel, inadequate training and legacy IT systems have slowed down the complete realization of the advantages of accrual accounting (MAMPU, 2023). Public Sector Organisations' accounting practice also struggles with application of fair value measurement, asset recognition and accounting for contingent liabilities. The aforementioned areas are subject matter areas which are conceptually challenging but operationally challenging as regards public goods and non-generating assets (Alsharari, 2022). This is a clear indication of the continuation of normative theoretical approaches and everyday operating challenges facing PSOs.

Implications for Stakeholders

The problems and evolving practices of public sector financial reporting (PSFR) hold important consequences for a broad range of stakeholders. For government agencies, accurate and comprehensive financial reporting is critical to good fiscal management, budget control and performance measurement. The breakdown of sound standards in reporting can undermine

governance mechanisms and threaten fiscal sustainability (Benito et al., 2022). Policy makers and regulators, in Malaysia's case through agencies such as MAMPU and the Accountant General's Department, are urged to institute capacity building, legal harmonisation and digital transformation for the successful application of the MPSAS (MAMPU, 2023). Auditors and regulatory bodies rely on good quality financial reports to conduct effective audits and detect inefficiencies, irregularities and mismanagement (Brusca et al., 2023). For the people and civil society, the transparency of financial reporting enhances government accountability, builds trust and promotes well-informed public participation in democratic processes (PwC, 2022; Alsharari, 2022). Donors and multilateral agencies, as international development partners, use accurate financial disclosures to assess creditworthiness, comply with aid conditionality and confirm fiscal discipline (Christiaen et al., 2015).

Globally, the transition to accrual accounting is a persistent challenge characterized by resistance, technical capacity gaps and institutional resistance (Brusca et al., 2023). Malaysia, too, suffers from the same constraints, compounded by decentralized systems of information and legal misalignments (Saleh & Hassan, 2021). The rising technologies of artificial intelligence and blockchain offer new opportunities to enhance the timeliness and accuracy of public sector accounting (Kassahun et al., 2023). Malaysia's digital agenda, particularly under the Malaysia Digital Economy Blueprint (MyDIGITAL), aligns with these global trends, though ongoing political will and institutional renewal remain key to ensuring proper implementation (MAMPU, 2023). In general, while theoretical justification of accrual-based Public Sector Financial Reporting is reasonable, operationalisation calls for technical solutions along with cultural, institutional and policy change. Implications are extensive and touch compliance, governance quality, fiscal accountability and trust of the public.

Conclusion

This paper has chronicled the historic issues and challenges of financial reporting in PSOs globally and in Malaysia. The transition to accrual to cash accounting, governed by standards like the IPSAS and MPSAS, remains a central reform in promoting transparency, accountability and governance (Saleh & Hassan, 2021; Brusca et al., 2023). Though much debated on paper, its use is hindered by technical, institutional and cultural constraints. Globally, the main issues are technical capacity deficit, resistance to change and incompatibility of accounting practices with the public sector environment (Benito et al., 2022; Christiaens et al., 2015). The Malaysian situation is no exception, coupled with additional legal restrictions, poor information and communications technology (ICT) infrastructure and poor financial reporting skills among public sector officers (MAMPU, 2023). Moreover, the integration of emerging technologies like blockchain and AI into financial reporting is a new but yet to be tapped solution (Kassahun et al., 2023).

Policy and Practice Implications

The findings of this study elicit salient basic implications for policy and practice of central importance in boosting PSFR, even more against the context of Malaysia's accrual-based accounting transition. Most importantly, the development of institutional capacity cannot be circumvented. Governments must invest in developing the capabilities of public sector accountants through continuous professional education, increasing financial literacy as a whole, and building robust ICT infrastructure in order to meet the technical requirements of accrual-based accounting systems (PwC, 2022). Without the appropriate skills and computing

support, the effective implementation of the MPSAS will still be hindered. No less important is legal and regulatory convergence. The policymakers should prioritize aligning dormant or disconnected financial regulations with MPSAS in a bid to remove disparities in the law and zones of uncertainty that restrict full compliance with accrual-based practices (Saleh & Hassan, 2021). The reforms should go hand in hand with official change management initiatives, however.

Change resistance is among the largest obstacles in the public sector, and the realization of integrative plans that consist of stakeholder involvement, communication strategies, and leadership support is critical for facilitating successful organizational transitions (Brusca et al., 2023). Moreover, digital transformation provides a unique opportunity to enhance the efficiency of PSFR. The application of state-of-the-art technologies such as blockchain to achieve tamper-proof and open record-keeping and artificial intelligence for real-time processing of data and predictive analysis of financial performance can make the reporting highly reliable, accurate and real-time (Kassahun et al., 2023). The national digitisation strategy under the MyDIGITAL blueprint in Malaysia offers a fundamental policy vehicle to drive such a transition (MAMPU, 2023).

Finally, there is a need to strengthen the accountability frameworks to ensure fiscal transparency and confidence among the public. Improved financial reporting enhances the capacity of audit institutions to monitor resource utilization, supports public sector integrity and helps domestic and foreign stakeholders ascertain fiscal sustainability (Benito et al., 2022). In sum, these implications call for a policy reaction that combines technical change with broader institutional and cultural reform.

Future Research Ideas

Subsequent PSFR research needs to address some under-explored domains to further advance theoretical expertise as well as actual reforms. One of them is the measurement of the effects of accrual adoption. While accrual accounting enjoys robust theoretical basis, the empirical literature remains without measurement of its actual impacts on fiscal transparency, financial management and governance performance, particularly in Malaysia and other comparable economies. Experimental or longitudinal studies could offer valuable information on whether the anticipated benefits of accrual implementation are actually being attained in practice.

Another domain is the systematic integration of technology into PSFR, a field of high potential but low research. Blockchain, artificial intelligence and data analytics emerging technologies could potentially end current inefficiency, data fragmentation and late reporting issues. But additional research is needed to apply these tools to effective operation in public sector accounting systems (Kassahun et al., 2023).

Another important gap lies in behavioural and organisational dynamics. Cultural resistance entrenched bureaucratic convention and political inertia are likely to inhibit reforms. Qualitative investigations into the way that these behavioural and institutional factors shape reform outcomes are, therefore, needed (Brusca et al., 2023).

Furthermore, comparative studies especially between ASEAN or Commonwealth countries can provide broader insights into best practice and situational concerns of PSFR reform. Cross-country analysis can determine how variations in governance environments influence success or failure in similar accounting standards.

Finally, there is an urgent need to extend research on sustainability reporting in PSOs. While governments around the world commit themselves to Sustainable Development Goals (SDGs), including taking environmental, social and governance (ESG) issues into account in financial disclosures, the momentum is gaining rapidly. The need therefore arises for sound frameworks and empirical studies examining how PSOs balance their financial reporting practices with ESG demands. The transition to accrual accounting, although theoretically well-placed, remains a complex exercise.

Sealing these gaps in research will involve consistent efforts in reforming policy, building capacity, technological innovation and political will. Advancing research on these areas will not only benefit Malaysia but also be of great value to the whole world as it seeks to improve accountability, fiscal transparency and good governance in the public sector.

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