Determinants of Readiness for Consolidated Financial Reporting Among Controlled Entities under the Federal Government of Malaysia

Kamilah Ahmad[1], Shafie Mohamed Zabri[2,*], Siti Aisyah Mustafa[3], Romzie Rosman[4]

[1,2,3]*Faculty of Technology Management and Business, Universiti Tun Hussein Onn Malaysia, Batu Pahat, Johor, Malaysia*

[4]*Institute of Islamic Banking and Finance, International Islamic University Malaysia, Gombak, Selangor, Malaysia*

**Corresponding Author: shafie@uthm.edu.my*

https://doi.org/10.58458/ipnj.v15.02.02.118

Received: 21 April 2025 *Reviewed: 30 September 2025* *Accepted: 30 October 2025* *Published: 24 December 2025*

Abstract

Purpose: Organisational changes in the public sector have led public services to experience greater decentralisation. Nonetheless, the formal separation of governmental annual accounts and service providers via legally independent, government-owned entities have frequently undermined the accountability and decision-making capabilities of public sector accounts. This study aims to examine the key factors influencing government-controlled entities' readiness for implementing consolidated financial reporting (CFR) in Malaysia and their level of readiness.

Design/ Methodology/ Approach: A quantitative approach was employed, and data collection involved a questionnaire survey, which was distributed via email and postal mail to 70 entities controlled by the Federal Government of Malaysia. The descriptive and correlation tests were employed to facilitate data analysis.

Findings: Based on the elicited outcomes, the respondents demonstrated positive feedback on equity and consolidation methods. Their responses indicate their general acceptance and applicability in financial reporting.

This article is part of a research on Consolidation Method for Reporting Investments in Controlled Entity in the *Menteri Kewangan Diperbadankan*: Issues and Challenges supported by the Accountant General's Department of Malaysia through *Geran Penyelidikan Perakaunan dan Kewangan Sektor Awam Tahun 2024* (JANM.100-12/2/1 (17)).

While IT support and facilities, staff adequacy and skills, top management commitment, and strategic considerations significantly and positively influenced CFR implementation readiness, reporting complexity negatively and significantly impacted CFR. Rules and regulations were not significantly associated with CFR readiness.

Practical Implication: The study offers insights for public sector accountants and relevant policy makers on key considerations for implementing the consolidation method. This includes aligning accounting policies, training staff, synchronising closing periods, establishing clear reporting procedures, assessing and integrating finance systems, monitoring currency exchange, and ensuring subsidiaries use a chart of accounts aligned with the parent company.

Originality/ Value: This study offers a crucial perspective on how consolidated financial reporting functions as a strategic governance tool to enhance transparency and accountability within the context of government-controlled entities, while critically examining the organisational factors that influence readiness for its adoption.

Keywords: Consolidated financial reporting, public sector accounting, public financial management, government-controlled entities, Malaysia

1.0 Introduction

The new public management (NPM) philosophy has driven many countries to initiate financial reporting reforms in the public sector (Santis et al., 2018) to increase public sector governance, as well as financial and political accountability. It demands a more holistic accounting system such as the consolidated financial statements (CFS) for public financial reporting transparency and accountability (Carini & Teodori, 2019). Furthermore, the emergence of various decentralised entities associated with government organisations has limited the representation of government activities and financial status in conventional annual reports (Argento et al., 2012). The complex governance structures and financial interdependencies characterising these organisations could not be effectively captured in the conventional annual reporting framework, which lacks integrative capacity (Cordery & Hay, 2024; Oulasvirta & Rönkkö, 2023).

Carini et al. (2018) added that the shift in public sector boundaries have highlighted the individual annual report's limitations in reflecting the controlled entities' economic and financial characteristics. The failure to include the financial impact of subsidiaries, joint ventures, and associates in conventional annual reports exacerbates the issue (Manes-Rossi et al. 2019; Oulasvirta, 2022). This obscures the true financial picture, in addition to posing transparency and accountability challenges, particularly in assessing governmental financial commitments and performance (Boex et al., 2021). Inter-company transactions, balances, and unrealised gains or losses, which are not eliminated without consolidation, inflates figures and reduces transparency. This lack of clarity weakens stakeholder confidence and renders it challenging to assess the company's overall financial interactions and performance. Furthermore, consolidation for entities that control other counterparts is required when the lack of CFR leads to non-compliance with standards. Reporting transparency and accountability must be improved in government-controlled entities due to substantial government fund investments and its impact on public interest.

The public-sector CFR is crucial for facilitating decision-making processes, as well as ensuring public accountability and transparency (Elharon & Hassan, 2025). In this vein, the financial performance and position of the single government and decentralised government entities are clearly depicted (Grossi & Pepe, 2009; Wise, 2010). It fulfils the goal of combining all government resources and liabilities to gauge the government's financial status and the overall functioning of the interrelated group (Bisogno et al., 2019. In line with Tran et al. (2020), accrual accounting lays the foundation for establishing a consolidated reporting system in the public sector. International Public Sector Accounting Standards (IPSAS) 35 outlines the CFS guideline, with Malaysia basing it on the Malaysian Public Sector Accounting Standard (MPSAS) 35 released in March 2016.

Notwithstanding, the challenges in implementing this approach warrant further investigation (Christiaens & Van Hulle, 2015; Manes-Rossi et al., 2016). The international regulatory body (IPSASB) and governments (Cîrstea et al., 2017) have extensively debated on resource insufficiency, complexities, and other strategic issues in adopting CFS. As per Aceituno et al. (2006), the diverse accounting standards in CFSs may adversely affect the comparability of the CFSs released by companies due to the potential misinterpretation of income and equity measurements. This renders the elicited information irrelevant for users in their decision-making process. Financialised forms of economic management and mechanisms for implementing state industrial and development policies is a key feature of modern state-led capitalist development (Mertens & Thiemann, 2018). The consolidation of government-controlled entities is under greater demand, albeit with technical intricacies (World Bank, 2024; MIA, 2025). In Malaysia, structural tensions between centralised oversight and local autonomy continue to deter decentralisation reforms (Lee & Samuel, 2024; Sulaiman et al., 2025).

The key determinants of CFR readiness remain less-examined in the context of government-controlled entities within Malaysia. Past works have primarily investigated the implementation challenges and technical complexities associated with consolidation methods, with little emphasis on the drivers of organisational readiness for CFR adoption. Multidimensional determinants such as information technology infrastructure, staff competency, management commitment, and strategic alignment that underpin successful CFR implementation in the public sector are largely overlooked due to the focus on the transition toward accrual-based accounting and compliance with financial reporting standards. A contextual gap in understanding the unique administrative, structural, and governance dynamics of federal government-linked or controlled entities is created given the emphasis on consolidation practices in private-sector entities. In response to this limitation, the current work aimed to strengthen public sector financial reporting frameworks while promoting greater consistency, transparency, and accountability in Malaysia's fiscal management practices by identifying and analysing the key determinants of CFR readiness.

2.0 Literature Review

2.1 Theoretical Perspectives

The commander theory, agency theory, stakeholder theory, contingency theory and institutional theory were empirically used to posit the importance of the consolidation method. Following Goldberg's (1965) commander theory, accounting procedures are conducted from the viewpoint of a commander rather than that of an owner or artificial entity. In the corporate context, activities are directed by a hierarchy of decision-makers or commanders who manage organisational resources and daily operations. Accounting should focus on how effectively the management utilises corporate resources, with key information provided to inform economic decisions. Based on Wise (2010), a commander theory approach complements the hierarchical system of control over resources existing in the public sector. This hierarchical power structure allows ministers and the heads of departments, agencies, and statutory authorities to command specific information production (Kim & James, 2021).

Jensen and Meckling (1976) pioneered the agency theory, which could result in conflicts when agents (government representatives) are not well-aligned with the principals' (the public) interests. The theory denotes the conflict of interests and potential power imbalances between the agent and principal. Financial information reporting's transparency and accountability may be undermined by information asymmetry between the parties involved. Tawiah (2023) claimed that the agency problem instigated by political influence and the appointment of government officials to manage public resources calls for robust accountability structures. The collective structures for promoting informed decision-making, transparency, and accountability between the principal (citizens, voters, and taxpayers) and agents (government officers and politicians) can be generally described as governance (Cuadrado-Ballesteros & Bisogno, 2021). Wise (2010) and Oulasvirta (2022) highlighted accountability and reporting obligations as sufficient measures for protecting key stakeholder interests. Multiple levels of principal-agent relationships may exist in consolidation, with the principal functioning as an upper agent and reporting to a higher principal or supervisor. Several layers of principal-agent relationships may be established, with one principal exerting control over several agents (Bergmann et al., 2015). Regarding government-linked investment companies, the governing body of these entities or their parent organisations act as both an agent (accountable to the public or shareholders) and a principal.

Freeman's (1984) stakeholder theory provides more in-depth insights into the significance of consolidation. The formal separation of government annual accounts and service providers via legally-independent, government-owned entities often reduces the level of accountability and effectiveness of decision-making in public sector accounts. In addition to reducing transparency, this separation can deter the ability to hold these entities accountable for their financial decisions (Brown & Jones, 2019; Smith, 2020). The government's annual financial report may provide a limited representation of its economic and financial activities, as it may not include the financial outcomes of subsidiaries, joint ventures, and associates in traditional annual reports. Clarke (2004) defined the stakeholder theory as multilateral agreements between an enterprise and its stakeholders, with a focus on the need to consider and protect all stakeholder interests. The theory aligns with CFR, which improves transparency of the financial position and performance of the public sector entity and all its controlled entities. This allows relevant stakeholders to understand the management and use of public resources (Cîrstea et al., 2017), as well as foster greater organisational confidence and trust. The CFR allows for making more informed decisions on policy and resource allocation while ensuring that public funds are used in favour of the public (Santis et al., 2018). Furthermore, stakeholders who need to assess public sector operations' performance and efficiency require better comparability between different public sector entities over time (Grossi, 2009).

The contingency theory delineates the factors affecting accounting practices in different organisational types, and how accounting approach works best when aligned with organisational needs (Nájera Ruiz et al., 2021; Abu Afifa et al., 2022; and Dello Sbarba et al., 2024). A system's effectiveness hinges on various contextual factors, including internal elements such as technological infrastructure and leadership commitment, as well as external pressures (strategic fit and regulations), given the absence of a universal solution. In this study, the contingency theory was incorporated to ascertain the factors influencing CFR readiness.

2.2 Current Enforcement of CFR in Malaysia

The current enforcement and regulatory framework governing CFR must be outlined in the context of Malaysia to strengthen the contextual understanding of this study. Public-sector CFR implementation is currently guided by the MPSAS 35: Consolidated Financial Statements, largely adapted from the IPSAS 35. This standard mandates CFR for federal and state governments, as well as government-controlled entities, which exercise control over other entities. Consolidated financial positions and performance ensure both transparency and accountability. Nonetheless, the level of implementation remains uneven due to differences in technical capacity, data integration systems, and resource allocation. This explains why many ministries, departments, and statutory bodies remain in various stages of readiness. Recent reports by the Accountant General's Department of Malaysia (AGD) disclosed that full compliance with MPSAS 35 remains in progress, with selected pilot entities guiding the transition. Conversely, some entities may apply the equity method. This reporting approach is used when an investor has significant influence yet does control an investee. There is recognition of the investee's net assets and profits in its financial statements, but this financial data is not fully consolidated. Meanwhile, CFR requires the full integration of all controlled entities' assets, liabilities, income, and expenses into a single report. Overall, the current findings on CFR readiness and implementation among Malaysia's controlled entities can be better interpreted by clarifying the regulatory status, scope of enforcement, and methodological distinctions between CFR and the equity method.

2.3 Readiness of CFR Adoption

Data consolidation is extensively used to ensure public accountability and deliver an economic entity's true financial statements (Smith, 2020; Sotti, 2018). Hence, the overall success of CFR implementation across different processes and levels can be ensured by assessing organisational readiness or willingness to embrace CFR in the public sector. The acceptance and readiness of accounting standards adoption have been empirically examined in diverse contexts. For example, Cheng et al. (2014) revealed that planning, effective resource allocation, and the establishment of key facilities largely influence a company's readiness to implement certain financial reporting systems. Phan et al. (2018), who examined the perceived benefits and challenges associated with the willingness to adopt International Financial Reporting Standards (IFRS), disclosed that the perceived disadvantages and challenges diminished the willingness to adopt IFRS. Le (2023) employed the theory of planned behaviour (TPB) to examine the factors influencing accountants' readiness to implement Vietnam's public sector accounting standards. Proposed by Ajzen (1991), this theory is vital for explaining an individual's intention to engage in a specific behaviour to yield a specific outcome. In line with Le (2023), attitude, perceived usefulness, and coercive pressure significantly affect the accountants' readiness.

2.4 CFR Readiness Determinants and Hypothesis Development

Tran et al. (2020), Bergmann et al. (2015), Walker (2011), Grossi and Pepe (2009), Wise (2010), and Bergmann and Bietenhader (2008) have enriched the existing literature on public-sector CFR. Following Sánchez-Serrano et al. (2020), CFS presents a single economic and financial position of a group of companies owned by a parent company. It also eliminates transactions between these companies, which allow third parties to access assets, liabilities, income, and expenses. The recently updated standard under IPSAS 35 provides more guidance on control assessments. An entity's ability to influence benefits through power over another entity is termed as control. The new definition could significantly affect previous control assessments and the potential consolidation of certain entities (IPSASB, 2015). The IPSAS 35 introduces "investment entities", which measure its investments in controlled entities at fair value through surplus or deficit. Due to reasons specific to the public sector, an entity that controls an investment entity should retain this accounting method for an investment entity's investments in its consolidated financial statements (regardless of whether it is an investment entity itself).

In Malaysia, the Accounting International Guidelines under IPSAS 35 and/ or MPSAS 35 establish control as the primary basis for determining the consolidation scope. Regardless, Bergmann et al. (2015) claimed that the control criterion does not guarantee full consolidation for all controlled entities. The equity method can be used in place of full consolidation in certain situations. Advocates for equity method argue that presenting shares as individual asset items enhances transparency, not unlike full consolidation. Nonetheless, this approach might not provide a clear depiction of the central government. In many countries, entities with a robust financial position and significant revenues from market activities (commercial banks and financial intermediaries) are consolidated via the equity method. Notwithstanding, this approach does not clearly demarcate the liabilities and financial risk linked with controlled entities. Bergmann et al. (2015) contended that the complex structure of the public sector and its variety of decentralised entities has led to the consolidation of perspectives from budgetary, organisational, legal, statistical, and risk perspectives.

Grossi and Pepe (2009) outlined the emergence of consolidated reports in the public sector, as well as the similarities and differences in accounting principles and standards used to prepare CFR in six (6) developed countries. From a scholarly viewpoint, the dynamics of government financial reporting renders it challenging to establish a sense of stability. No consensus has been reached on the best way to determine the appropriate blend of private and public sector approaches despite the increased harmony, comparability, and uniformity derived from convergence. Regarding CFS practice in the Australian public sector, Walker's (2009) study involved the entire government and public administration. Walker (2011) also highlighted the issues arising in Australian practice over the past two (2) decades, starting from 1988. Potential solutions were proposed based on report users' routine decisions. Wise (2010) reviewed the existing literature on the antecedents of public sector accountability performance, with emphasis on financial report preparers' opinions on the usefulness of government-wide CFR. The aim was to determine whether consolidated financial information is useful for decision-making purposes and government resource allocation decisions.

Several studies have been conducted in the context of CFR, IPSAS/ MPSAS, and accrual to determine the factors affecting organisations' readiness to adopt new accounting reporting approaches. Nevertheless, studies examining the factors or issues associated with implementing new accounting standards or approaches (CFR, IPSAS, and accrual) remain lacking. As per Grossi (2009), the lack of local administrations and municipal enterprises' accounting homogeneity, lack of expertise and knowledge on consolidated reports, and lack of staff (no obligation to complete, difficulty in consistently obtaining the requisite data and documents, limited transparency of local government annual reports, and lack of appropriate software) are the most common issues in implementing consolidated financial statements. Bergmann and Bietenhader's (2008) survey on public-sector CFR in Switzerland highlighted differences in practice and views on whether to implement consolidation. Lack of interest or political pressure, high implementation costs, lack of legal obligations, and technical issues are the reasons cited for not presenting the cases.

Abu Hasan et al. (2022) revealed the inadequacy of resources (incompetent accounting staff, as well as IT facilities and support), accounting reporting issues (difficulties in recognition and valuation of assets, liabilities, revenue, and expenses), and poor top management commitment in ensuring successful change management programmes as inhibitors of IPSAS adoption across developing countries. The unpredictability of the implementation date, the need for recurrent training, and lack of qualified staff were also highlighted in the study. Saleh et al. (2021) identified three categories of challenges such as the lack of competent accounting and finance staff and inadequate information technology facilities; accounting and reporting issues related to difficulties in recognising and measuring assets, liabilities, income, and expenses; and the commitment of top management to ensure a successful change management programme, all of which hinder IPSAS implementation in several developing countries. Manes-Rossi et al. (2016) identified the barriers to introducing accrual-based accounting standards, which include the high cost of implementation, variances in accounting systems, and the cost of educating public sector employees. Building on past findings, this study divided the key factors of CFR readiness into the following six (6) factors: IT support and facilities, staff knowledge and skills, complexity of reporting, rules and top management commitment, and strategic considerations. The following sub-sections elaborate on each factor.

2.4.1 IT Support and Facilities

Both IT support and facilities are crucial for preparing holistic financial reporting system. The adequacy and reliability of IT infrastructure for supporting the reporting process characterise this variable. Furthermore, Santis et al. (2018) highlighted the need for robust IT systems to manage complex financial data and support the consolidation process. Effective IT infrastructure allows for integrating various financial systems, reducing errors, and facilitating real-time data access (Kipilimba, 2024). Regarding IPSAS adoption, Abu Hasan et al. (2022) revealed that the adoption of accounting standards requires adequate IT support. It proves vital to enhance IT support and infrastructure before implementing CFR to ensure the accuracy and efficiency of financial data integration. Given the importance of IT systems in supporting data consolidation and standardised reporting, the following hypothesis was developed:

H1: There is a significant relationship between IT support and facilities and the organisation’s readiness of CFR.

2.4.2 Staff Adequacy and Skills

Human resources, which include staff availability and proficiency in managing the reporting process and information consolidation tasks, play a pivotal role in adopting complex financial reporting methods. Competent staff are crucial for understanding and implementing accounting standards and systems (Tilahun 2019). In line with Bisogno and Cuadrado-Ballesteros (2019), well-trained staff is key to improving financial reporting effectiveness and sustainability. Accounting professionals are capable of generating accurate financial statements that reflect the company's financial condition when they have in-depth knowledge of accounting standards (Huynh et al., 2024). Following Grossi (2009), Saleh et al. (2021), and Abu Hasan et al. (2022), the implementation of appropriate accounting systems can be hindered by the absence of competent accounting staff. Manes-Rossi et al. (2016) claimed that the cost of educating employees can hamper the adoption of new accounting approaches. Substantial investment in training and development is required to ensure staff proficiency in the new systems. Employees who are well-versed with the current system may hesitate to embrace change, thus exacerbating the challenge (Khaw et al., 2023). As adequate and well-trained staff resources are crucial for successfully implementing comprehensive financial reporting, the following hypothesis was developed:

H2: There is a significant relationship between staff adequacy and skills and the organisation's readiness of CFR.

2.4.3 Complexity of Reporting

The intricate nature of the financial reporting process and associated challenges denote the complexity of reporting. The consolidation process can be further hampered by the need to comply with multiple regulatory requirements and the inherent challenges of business operations. Following Blankespoor et al. (2020), an organisation's complex structure and operation in diverse environments complicate the acquisition of essential information for investors or stakeholders. Information asymmetry between the firm and its external investors are further compounded by this complexity and financial reporting intricacies. Correspondingly, Baik et al. (2023) reported that managers' decision to optimise the disclosure of their complex operations and performance to external stakeholders could lead to financial reporting complexity. Empirically, complex organisations tend to enhance their financial reports via voluntary disclosures. The elimination of intercompany transactions, the harmonisation of differing accounting policies, foreign currency translations, the recognition of minority interests, complex ownership structures, and the management of variable interest entities (VIEs) are some of the factors contributing to the complexity of consolidated reports (Murphy & McCarthy, 2010; Aoki & Sawai, 2024). High costs may also be incurred through the use of specialised knowledge and systems to manage and report complex information (Santis et al., 2018; ACCA, 2023). Given the need for thorough adjustments to ensure precise, transparent financial reporting across multiple entities, the following hypothesis was developed:

H3: There is a significant relationship between the complexity of reporting and the organisation's readiness of CFR.

2.4.4 Rules and Regulations

The preparation of financial reporting is influenced by the need to comply with multiple regulatory requirements. Based on Bhattacharjee (2015), strict adherence to regulatory frameworks is key to maintaining investor confidence and ensuring compliance with legal standards. Organisations must ensure regulatory compliance in financial reporting with a sound understanding of rules and standards (Surganovich, 2024). Rules are important to protect investors, maintain fair and efficient markets, and promote transparency and accountability within organisations. For example, the IPSAS framework provides a holistic guideline for accrual-based financial reporting, enhancing the quality and comparability of financial information (Paulus et al., 2023). In Malaysia, companies must adhere to the Malaysian Financial Reporting Standards (MFRS) issued by Malaysian Accounting Standards Board (MASB, 2024). Additionally, regulatory bodies such as the Securities Commission Malaysia (SC) and the Companies Commission of Malaysia (SSM) impose strict reporting requirements to ensure compliance. Based on these arguments, the following hypothesis was developed:

H4: There is a significant relationship between rules and regulations and the organisation's readiness of CFR.

2.4.5 Top Management Commitment

The top management must be willing to commit to the necessary process, as well as enforce rules and financial reporting standards. In line with Christiaens and Van Hulle (2015) and Yusliza et al. (2019), strong management commitment is significantly correlated with the adoption of managerial practices in organisations (including the financial reporting system). The management approval is crucial for the application of accounting systems in enterprises. They hold the authority to organise, allocate personnel, and allocate other resources (Huynh et al., 2024). The implementation of new reporting standards can fail without strong leadership and clear guidelines (Bricker, 2018). Consequently, Zhang (2019) reported that the characteristics of top management significantly determine compliance with financial reporting standards and improve the overall quality of financial reporting. In this vein, the following hypothesis was developed:

H5: There is a significant relationship between top management commitment and the organisation's readiness of CFR.

2.4.6 Strategic Considerations

Organisations typically consider the strategic benefits of adopting new reporting methods, such as improved transparency and accountability or their alignment with the organisation's goals (Garcia-Sanchez et al., 2013). Kaplan and Norton (2008) argued that aligning financial reporting with strategic goals enhances decision-making, operational efficiency, and stakeholder communication, all of which potentially improve the overall organisational performance. Strategic considerations refer to the implications and effects of adopting the consolidation method on the organisation's overall goals and operations. While the implementation of IPSAS or IFRS has been associated with higher governance quality levels, including better accountability and government effectiveness (Cuadrado-Ballesteros & Bisogno, 2019), consolidated reporting might reveal sensitive, confidential company information (ACCA, 2023; Oulasvirta, 2022). Organisations may overlook any methods that diverge from their objectives and nature. As strategic factors can play a significant role in an organisation's readiness and willingness to adopt CFR, the following hypothesis was developed:

H6: There is a significant relationship between organisation strategic considerations and the organisation's acceptance of CFR.

3.0 Research Method

A quantitative approach was used in this study to achieve the research objectives. The following sub-sections detail the data collection methods, study population, and variable measurements.

3.1 Data Collection

Quantitative data were collected using online and postal surveys. The study primarily examined entities controlled by the federal government of Malaysian companies to determine the issues related to CFR implementation. As established legal structures, these entities serve to rectify the market deficiencies stemming from insufficient private sector participation due to challenging market penetration (Najid & Abdul Rahman, 2011). A total of 70 companies, encompassing both majority-owned companies and special purpose vehicles (SPVs) regularly published by the Ministry of Finance, Malaysia, were identified from the list of Minister of Finance (Incorporated). The selected companies were chosen for their significant operational and financial relevance to the government, as well as their potential inclusion in CFR.

The survey questionnaire forms were disseminated online (via email) and by post. Notably, the controlled entities listed under the Minister of Finance (incorporated) served as the unit of analysis in this study. To capture relevant insights, empirical data were collected from finance and accounting managers. These individuals were chosen as key informants owing to their direct involvement in preparing and reporting financial statements.

3.2 Measurement Scales

Six (6) key variables associated with CFR implementation readiness (IT support and facilities, staff skills and adequacy, rules and regulations, top management commitment, reporting complexity, and strategic considerations), consisting of 19 items, were included in this study. The following discussions elucidate on each variable alongside its corresponding source of references. The first variable, IT support and facilities, implies the adequacy and reliability of technological infrastructure and systems that enable accurate and timely financial reporting (Grossi, 2009; Abu Hasan et al., 2022). Second, staff adequacy and skills represent the competence, experience, and sufficiency of accounting personnel involved in financial reporting. This variable captures employees' knowledge, training, and support in implementing CFR (Grossi, 2009; Saleh et al., 2021; Abu Hasan et al., 2022). Third, complexity of reporting denotes the level of difficulty and technical challenges of data heterogeneity, multiple reporting layers, and procedural complications encountered during the preparation of consolidated financial reports (Grossi, 2009; Mnif & Gafsi, 2020). Fourth, rules and regulations reflect the influence of existing accounting standards, legal obligations, and regulatory frameworks on financial reporting practices (Grossi, 2009; Krishnan et al., 2021; Saleh et al., 2021). Fifth, top management commitment captures the degree of leadership support, resource allocation, and prioritisation given to the implementation of CFR initiatives (Grossi, 2009; Saleh et al., 2021; Abu Hasan et al., 2022). Lastly, strategic considerations characterise the alignment between CFR adoption and an organisation's broader strategic goals of enhancing decision-making, competitiveness, and financial transparency (Bui, 2023).

The dependent variable, comprising of three (3) items, captured the readiness of the CFR implementation. A 7-point scale ranging from 1 (highly disagree) to 7 (highly agree) was utilised to gauge the respondents' feedback on the key study variables. The questionnaire items were adapted from Abu Hassan et al. (2022), Tran et al. (2020), Santis et al. (2018), and Saleh et al. (2021). A follow-up was performed via postal survey after the first distribution through email and postal mail to increase the number of responses. Thirty-eight valid replies were received at the end of the data collection, with a 54.3% response rate. A minimum sample of 30 proved adequate to draw a statistically sound conclusion about a population (Pannel, 2023).

Data reliability analysis was conducted to assess the internal consistency and the degree of association among a set of items. A measurement is deemed reliable and adequate for retaining all the instrument items if the Cronbach's alpha value is equal to or exceeds 0.7. In line with Hair et al. (2015), Cronbach's alpha coefficient approaches a value of 1.0 with an increase in the items' internal consistency. The reliability analysis indicates that five (5) out of six (6) key variables reflect a Cronbach's alpha value exceeding 0.7. As such, the items demonstrated a high level of reliability. The strategic considerations factor, which exhibited a Cronbach's alpha of 0.5, was removed to increase the Cronbach's alpha value. Specifically, the deletion of items 1 and 4 under this category improved Cronbach's alpha value to above 7.0. The following section presents the data analysis outcomes.

4.0 Results and Findings

4.1 Profiles of Respondents

Table 1 presents the respondents' demographic background. The results detail the survey participants, categorised by their business entities, sales ranges, and financial reporting system.

Table 1: Profile of Respondents

	N	%
1. Type of Business Entity		
Sdn Bhd	32	84.2
Bhd	6	15.8
Total	**38**	**100.0**
2. Sector		
Logistics	3	7.9
Computing/ multimedia services	2	5.3
Medical services	1	2.6
Construction	5	13.2
Hospitality	3	7.9
Rubber	1	2.6
Education/ research services	3	7.9
Venture capital	2	5.3
Sewerage management	1	2.6
Property management	1	2.6
Debt recovery management	1	2.6

Table 1: Profile of Respondents (continued)

	N	%
Finance services	6	15.8
Port services	3	7.9
Airport/ aircraft maintenance	2	5.3
Technology developer	3	7.9
Missing	1	2.6
Total	**38**	**100.0**
3. Sales		
RM 300 000 - RM 1 million	1	2.6
RM 3.1 million - RM 15 million	2	5.3
RM 15.1 million - RM 20 million	2	5.3
RM 20.1 million - RM 50 million	10	26.3
More than RM 50 million	23	60.5
Total	**38**	**100.0**
4. Age		
Below 10 years old	4	10.5
11 - 20 years old	9	23.7
21 - 30 years old	14	36.8
31 - 40 years old	8	21.1
More than 40 years old	3	7.9
Total	**38**	**100.0**
5. Unit/ Department		
Accounting	14	36.8
Finance	23	60.5
Missing	1	2.6
Total	**38**	**100.0**
6. Financial Reporting Method		
Equity	28	73.7
Consolidation	10	26.3
Total	**38**	**100.0**
7. Stage of CFR Implementation		
CFR currently is not being used in my organisation	28	73.7
CFR implementation is possible, but it has not been approved	1	2.6
Currently apply CFR for internal & external reporting purposes	9	23.7
Total	**38**	**100.0**

The sample businesses represent multiple sectors. Demonstrating the highest frequency, the finance services account for 15.8% to the respondents, followed by the construction sector (13.2%), and logistics, hospitality, education/research, port services, and technology developers (7.9% each). Regarding annual revenue, the respondents were distributed across different annual sales ranges. Approximately 13.2% of the respondents reported sales at less than RM 20 million, while a notable 26.3% fell within the RM 20.1 million-RM 50 million range. The majority of them (60.5%) disclosed sales exceeding RM 50 million. This sample distribution highlights financial diversity.

Based on the results, 36.8% of the businesses have been operating for 21 to 30 years. Organisations in operation for 11 to 20 years and 31 to 40 years account for 23.7% and 26.3% of the total sample, respectively. Only 10.5% have been in business for under 10 years. A mix of both established and relatively new companies is highlighted in this range of business. Regarding the reporting system, most of the respondents (73.7%) employed the equity method as a financial reporting technique. Approximately 26.3% of the respondents used the consolidation method, possibly due to the sample distribution. It is heavily skewed towards smaller organisations, which are likely to prefer the equity method for financial reporting. Following 2.6% of the respondents, CFR implementation proved feasible but yet to be approved by their organisation. Although CFR is increasingly gaining ground, some barriers may prevent its adoption. Meanwhile, 23.7% of the respondents hailed from organisations currently using CFR for internal decision-making and external reporting purposes.

4.2 Preference of Reporting Methods and CFR Implementation Readiness

Table 2 presents the respondent's level of preference for the financial reporting method, scored on a scale ranging from 1 (highly disagree) to 7 (highly agree). The mean scores for equity and consolidation methods (4.237 and 4.605, respectively) implies the prioritisation of the consolidation method over the equity method. Hence, factors other than preference (the specific nature of the business, regulatory requirements, or strategic considerations) can impact the choice of reporting method. With a mean value of 5.018 and a standard deviation of 1.093, CFR readiness proves to be relatively high. From the respondents' perspective, their respective organisations are ready to use the reporting method that complies with standards (mean = 5.605). This reflects a positive view of the organisations to adopt and implement CFR systems. Following Cheng et al. (2014), readiness for implementation is a key catalyst for adopting new financial reporting standards. With a mean score of 4.789, CFR is also perceived more transparent and provides more accountability.

Overall, the respondents provided positive feedback on CFR and its implementation. Both consolidation and equity methods are adaptable to the unique structures and financial practices of government-controlled entities. The choice between consolidation and equity methods may reflect the organisations' strategic alignment with public policy goals and governance standards, as these business entities are often under greater public scrutiny.

Table 2: Reporting Method Preference and CFR Readiness

	Min	Max	Mean	Std. Dev
Method Preferences				
Equity	1	7	4.237	1.866
Consolidation	3	7	4.605	1.285
Readiness of CFR				
My organisation is ready to adopt the reporting method that complies with standard.	5	7	5.605	0.855
My organisation is willing to adopt CFR under specific conditions.	3	7	4.658	1.279
I agree that CFR promotes greater transparency and accountability.	3	7	4.789	1.339
Average mean CFR readiness	**4**	**7**	**5.018**	**1.093**

4.3 Descriptive Analysis of Factors Associated with CFR Readiness

The descriptive statistics of factors or challenges in relation to CFR implementation readiness is presented in Table 3. Six (6) main categories involving IT support and facilities, staff adequacy and skills, the complexity of reporting, rules, and regulations, top management commitment, as well as strategic considerations underpin these factors. A total of 17 items was employed to measure the respective factors or challenges.

Table 3: Descriptive Statistics of Factors/ Challenges

	Min	Max	Mean	Std. Dev
IT Support and Facilities				
The cost of developing accounting information systems is high.	4	7	5.342	0.669
Information systems need to connect data between units in the same field.	4	7	5.263	0.854
Our information system is well-supported for making general reports of units.	3	7	4.737	1.032
We have appropriate software & IT facilities to support the reporting preparation.	3	7	4.711	0.956
Staff Adequacy and Skills				
We have an adequate number of staff to assist with CFR implementation.	3	7	4.553	0.978
We have an adequate number of staff with knowledge/ experience in CFR adoption.	3	7	4.421	1.004
We have adequate support staff to help with CFR adoption.	3	7	4.447	0.978
It needs significant time and costs to educate the staff and to implement CFR.	4	6	5.132	0.578
Complexity of Reporting				
There are issues of different reporting/ lack of homogeneity of accounting criteria.	2	6	4.974	1.150
Difficulty in obtaining the necessary data/ documents from time to time.	2	6	4.842	1.346

Table 3: Descriptive statistics of factors/ challenges (continued)

	Min	Max	Mean	Std. Dev
There are potentially high risks & errors in the consolidation process.	1	7	4.342	1.279
Other technical reporting issues.	1	6	4.474	1.179
Rules and Regulations				
Current legal obligations influence the adoption of CFR in my organisation.	3	7	4.763	0.786
Current obligations/ standards influence CFR implementation in my organisation.	3	7	5.026	0.915
Top Management Commitment				
Top management commitment is high for CFR adoption.	3	7	4.842	1.001
Strategic Considerations				
CFR adoption helps simplify financial statements.	3	7	4.421	1.004
My organisation prefers reporting that has a strategic advantage.	4	7	5.342	0.878

The results highlight IT-related issues in CFR implementation. Notably, the high costs associated with developing accounting systems denoted the highest mean score of 5.342. The success of CFR adoption can be significantly influenced by cost factors. The respondents highlighted the need for information systems to connect data between units (mean = 5.263) for effective financial reporting. The risk of data discrepancies and reporting errors increases could increase without such integration. The CFR preparation requires robust systems that can integrate data from various units without discrepancies. Meanwhile, the respondents moderately agreed to the items “our information system is well-supported for making general reports of units” and “we have appropriate software and IT facilities to support the reporting preparation” with a mean score of 4.737 and 4.711, respectively.

Regarding staff adequacy and skills, concerns about the time and costs involved in educating staff and executing CFR proved to be high (mean = 5.135). The findings align with the issue underlying the IT support and facilities category, where the cost factor is also deemed substantial. The second-highest factor is the item “adequate number of staff to assist with CFR implementation” (mean = 4.553), followed by the adequacy of support and competent staff to aid in CFR adoption (mean = 4.447 and 4.4421, respectively). The respondents moderately agreed that their organisations encompass experienced staff to aid in CFR preparation. Regardless, the number of support staff may not sufficiently support CFR implementation. The current findings call for targeted initiatives related to resource allocation and training to facilitate effective CFR implementation.

The lack of homogeneity in accounting criteria is the most pressing issue in the reporting complexity category (mean = 4.974), followed by difficulties in obtaining necessary data or documents from time to time (mean = 4.842). Hence, discrepancies, confusion, and greater time and effort to reconcile data may occur due to the inconsistencies in accounting criteria across different departments or regions. Furthermore, inefficient data management systems, the absence of standard procedures for data collection, and delays in communication are factors that can cause difficulties in obtaining necessary data. The mean score for “other technical reporting issues” (4.474) indicates a moderately high level of concern. The lowest mean score of 4.342 is indicated by the potential high risks and errors in the consolidation process. Stringent checks and balances are necessary given the inherent complexity and the potential for mistakes during the consolidation phase.

Under the rules and regulations category, the item “current obligations/ standards influence CFR implementation in my organisation” reflects a mean score of 5.026. From the respondents’ perspective, existing obligations or accounting standards significantly influence CFR implementation in their organisations. As non-compliance may result in legal repercussions or harm the organisation’s reputation, it is vital to comply with existing financial reporting standards. With a mean score of 4.763, the item “current legal obligation influences CFR adoption in my organisation” implies that legal responsibilities significantly contribute to accounting reporting practices in organisations. The moderately high top management commitment toward CFR adoption (mean = 4.842) suggests that the respondents received acceptable support from the upper management to implement the appropriate financial reporting system. Overall, top-level support is key to reinforcing the commitment to transparency and accountability in financial reporting.

Finally, the item “my organisation prefers reporting that has strategic advantage” under the strategic consideration category demonstrated a high mean score of 5.342. This result highlights respondents’ strong agreement to adopt reporting systems in line with the organisation’s strategic goals. Regardless, the item “CFR adoption simplifies financial statements” received a moderate level of agreement from the respondents with a mean score of 4.421. Respondents may have mixed views or experiences regarding CFR preparation given the complexities and additional effort, time, and resources required.

4.4 Descriptive Statistics of CFR Implementation Factors and Correlation Analysis

The descriptive statistics of CFR implementation factors is presented in Table 4, with a focus on the correlation analysis between the six (6) selected factors and CFR implementation readiness. Notably, IT support and facilities exhibited the highest average mean score of 5.031. The availability of IT-related resources is crucial for promoting the readiness to adopt CFR. Rules and regulations, top management commitment, and strategic considerations reflected mean scores exceeding 4.80, thus indicating a relatively high level of agreement. The average mean scores for reporting complexity, staff adequacy, and skills stood at 4.658 and 4.638, respectively. The average score for CFR implementation readiness (5.018) was deemed high.

Correlation analysis was conducted to determine which factors have a statistically significant relationship with CFR readiness to provide additional statistical evidence regarding the variable relationships. Normality tests were performed to determine the variable distribution. The normality was based on the Shapiro-Wilk value, as the sample size is below 50. Except for strategic considerations, rules, and commitment, all the variables denoted a significant value lower than 0.05. Three (3) independent variables and the dependent variable did not follow a normal distribution. The study proceeded with the non-parametric test for correlation analysis via Spearman correlation.

The IT support and facilities, staff adequacy and skills, commitment from top management, and strategic considerations were significantly, positively related to CFR readiness, with correlation coefficients of 0.665, 0.457, 0.443, and 0.441, respectively, and p-values < 0.05 (see Table 10). Hypotheses 1, 2, 5 and 6 were supported, demonstrating the substantial influence of IT support and facilities, staff adequacy and skills, top management commitment, and strategic considerations on the organisation's readiness of CFR. Hypothesis 4 was not supported, indicating that regulatory pressure has no statistically significant relationship with CFR readiness. Based on the strong relationship between IT and CFR readiness, IT support and facilities incur high costs and require integrated systems, which then support greater preparedness for CFR implementation. Furthermore, organisations with adequate experienced staff and greater top management commitment are more capable of handling CFR preparation. Yusliza et al. (2019) affirmed that committed leadership is vital for effectively implementing any major organisational change, including financial reporting systems. The findings, which suggest a significant relationship between financial reporting and strategic goals or planning processes, coincide with Kaplan and Norton (2008) on the significance of aligning the financial reporting approach with strategic organisational objectives.

Conversely, reporting complexity revealed a negative, significant relationship with CFR implementation readiness, with a correlation coefficient of -0.456 and a p-value under 0.05. Hypothesis 3 was supported through this finding. Highly complex CFR processes are bound to lower the readiness for its adoption. According to Woods and Humphrey (2009), effective training programmes and robust information systems are vital for overcoming these challenges and enhancing CFR implementation preparedness. With a p-value exceeding 0.05, rules and regulations did not significantly influence CFR implementation readiness. As such, Hypothesis 4 was not supported. The current findings align with by Kipilimba (2024), Abu Hassan et al. (2022), Tran et al. (2020), Santis et al. (2018), and Saleh et al. (2021), who examined the influence of key factors on the adoption of accounting practices in private and governmental sectors.

Table 4: Descriptive Statistics and Correlation Analysis of Factors and Challenges

	IT	Staff	Complexity	Strategic	Rules	Commitment	CFR
IT	1	.778** 0.000	-0.261 0.114	.554** 0.000	-0.177 0.288	0.306 0.061	0.665** 0.000
Staff		1	-0.239	.601**	-0.280	0.290	.457**
Complexity			1	-0.170	0.259	-0.057	-.456**
Strategic				1	-0.036 0.830	0.289 0.079	0.443** 0.005
Rules					1	0.442** 0.005	-0.132 0.429

Table 4: Descriptive Statistics and Correlation Analysis of Factors and Challenges (continued)

	IT	Staff	Complexity	Strategic	Rules	Commitment	CFR
Commitment						1	0.441**
							0.006
CFR							1

	Min	Max	Mean	Std. Deviation
IT support & facilities	4	7	5.013	0.784
Staff adequacy & skills	3	7	4.638	0.737
Reporting complexity	2	6	4.658	1.111
Rules	3	7	4.895	0.790
Commitment	3	7	4.842	1.001
Strategic considerations	4	7	4.882	0.834
CFR readiness	4	7	5.018	1.093

4.5 Additional Findings

The last section of the questionnaire contains optional, open-ended questions that encourage respondents to provide their own opinions on CFR preparation issues and suggestions. Table 5 presents some of the findings.

Table 5: Additional Issues and Suggestions for CFR Preparation

Issues	Suggestions for CFR preparation
Regulation, dissemination of instructions, reporting standard.	Re-arrangement on processes and procedures related to reporting of financial activities.
Internal accounting reporting process.	Planning of inter-departmental activities.
Need to have a proper plan and system integration.	Establish proper planning on accounting/ reporting activities.
Planning and delegation of instructions.	Comprehensive accounting and finance process and procedures.
Implementation process issues.	Delegation of authority and proper planning.
Planning and execution of the implementation.	Delegation of responsibilities and authority.
Need to stay updated with MFRS accounting standards.	Currently applying MFRS accounting standards.
Consolidating FS for operations outside Malaysia requires alignment and standardisation of standards and items. Different entities may have different timing/ data for reporting. As a holding company, we have to report to Bursa by March every year, but the subsidy/ JB is only in June.	System integration with operations from all members. Alignment of the closing period for all entities.
Transparency and accountability issues. Technological and data system limitations.	Establish clear reporting policies and procedures. Upgrade or integrate the finance system.
To ensure COA and code of accounts are correct, including reporting structure.	To have a good financial system structure to generate the consolidated financial statement.

Table 5: Additional Issues and Suggestions for CFR Preparation (continued)

Issues	Suggestions for CFR preparation
Different financial reporting systems: difficulties in integrating financial data. Adjustments can be complex and time-consuming, leading to error.	Train the finance and accounts staff on the consolidation process. The chart of accounts used by subsidiaries must be aligned with the parent company for a smooth consolidation process.
If the parent company operates in a different currency, any foreign exchange loss will influence the financial result.	Alignment of accounting policies. Staff training and knowledge transfer are needed for the preparation of CFR.
To have the necessary data captured on time before each reporting closing period. Choose the correct financial systems that are specific to the company's business nature.	Ensure all data is gathered and captured before month-end closing. Ensure the movement of transactions and ensure all information is correct.

Based on the qualitative findings presented in Table 5, the issues and suggestions are refined several main points.

i. Application of Uniform Accounting Standards and Alignment of Accounting Policies Across Entities

The CFR is possible if all entities within the group apply the same accounting principles, such as MFRS/ MPSAS, methods, and policies to avoid discrepancies in financial reports. Standardised accounting policies across all entities ensure uniformity in financial reporting, reduce complexity, and accurately reflect the group's financial position and performance.

ii. Upgrade or Integrated Financial and Operational Systems

The CFR can be efficiently established with a good integrated system that promotes seamless and consistent data flow. The finance department should upgrade or integrate financial and operational data across all member entities by ensuring that the system can handle complex consolidations, automate data collection, and generate accurate consolidated financial statements. Furthermore, a financial system structure must support efficient consolidation via standardised charts of accounts, consistent accounting policies, and strong reporting tools.

iii. Alignment of Closing Period for All Entities

Synchronised financial reporting can be ensured by aligning the closing periods of all entities. This helps consolidate financial statements in the timely manner while reducing the risk of errors and omissions.

iv. Establish Clear Reporting Policies and Procedures

Develop and document clear reporting policies that outline the requirements for financial reporting, including timelines, formats, and responsibilities. These policies should be communicated to all relevant personnel. Additionally, standardised procedures must be established for financial reports preparation, review, and approval by defining roles and responsibilities, setting deadlines, and implementing internal controls for improved accuracy and completeness.

v. A Chart of Accounts Used by Subsidiaries Must be Aligned with the Parent Company for a Smooth Consolidation Process

Ensure that all subsidiaries use a chart of accounts that aligns with the parent company. A simplified consolidation process ensures that financial data is comparable and easily aggregated. Moreover, firms can translate subsidiary accounts into the parent company's chart of accounts (where necessary) by developing a mapping system consolidate financial statements and maintain consistency.

vi. Staff Training and Knowledge Transfer are Needed for the Preparation of CFR

Provide targeted training programmes on the consolidation process, which include training on accounting standards, the consolidation software, and the specific CFR procedures and policies, for finance and accounts staff. Organisations should also organise regular knowledge transfer sessions to exchange insights, updates, and experiences related to CFR and encourage collaboration and communication among staff. Employees should be able to obtain guidance and clarification during the consolidation process through ongoing support via manuals, FAQs, and a helpdesk.

vii. Loss Due to Currency Exchange

Foreign exchange losses can impact the company's financial results, as is the case when a parent company operates in a different currency from its subsidiaries, or has assets and liabilities in foreign currencies.

5.0 Conclusion

This study elucidated on the readiness for CFR implementation, as well as its issues and challenges among the entities controlled by the Federal Government in Malaysia. The responding organisations indicated positive feedback on CFR implementation, which is key to enhancing transparency and accountability. In general, the Malaysian financial reporting system adheres to the established standards via an equity-based or CFR approach to reduce information asymmetry and ensure that managers act in favour of the owners and stakeholders. Moreover, government-linked/ business entities could tailor both reporting methods to their unique structures and financial practices. Given the frequent exposure to public scrutiny, these methods should also strategically align with public policy goals and governance norms to mitigate potential agency conflicts. Any changes in the financial reporting method require thorough consideration of the readiness and challenges associated with the processes.

Overall, IT support and facilities, staff adequacy and skills, top management commitment, and strategic considerations were significantly, positively related to CFR readiness. The strong relationship between IT and CFR readiness implied that IT supports and facilities require higher costs and integrated systems, which then support greater preparedness for CFR implementation. Organisations with sufficient experienced staff and greater top management commitment can better handle CFR preparation, which also indicate significant relationship between financial reporting and strategic goals or planning processes. Conversely, reporting complexity revealed a negative and significant relationship with CFR implementation readiness; a more complex CFR process lowers organisational readiness for adoption. No meaningful correlation was identified between CFR implementation readiness and rules and regulations.

The descriptive analysis of CFR readiness and its key determinants can be better understood through Malaysia's existing regulatory framework and institutional environment. While IT support, staff competence, top management commitment, and strategic alignment significantly contributed to CFR readiness, reporting complexity revealed a negative impact. The current state of CFR enforcement under MPSAS 35, which mandates consolidated financial statements for government-controlled entities but allows phased implementation, could explain these findings. Entities with stronger IT infrastructure and experienced personnel are better equipped to comply with these requirements, reflecting higher readiness levels. On another note, those with limited systems integration or technical expertise encounter delays and implementation challenges. Top management commitment aligns with government directives to improve public sector reporting, where entities with leadership buy-in tend to prioritise consolidation efforts. The negative effect of reporting complexity aligned with the procedural and technical demands imposed by the standard, including the need to consolidate multiple controlled entities, reconcile intra-group balances, and apply uniform accounting treatments. Although the regulations provided a legal framework, uneven resource distribution, different training levels, and limited oversight mechanisms across ministries and statutory bodies partially explained the differences observed in readiness levels. The descriptive findings extend beyond statistical observations to reflect the practical realities of policy implementation, resource availability, and institutional capacity in Malaysia's public sector, highlighting areas where targeted interventions could catalyse CFR adoption.

The present findings hold significant implications for policymakers and accounting standards practitioners in terms of policy formulation and strategy. For example, policymakers and regulatory bodies can design and implement policies that support CFR adoption. To ensure high CFR implementation readiness, organisations must allocate substantial resources to establish good IT facilities, support staff, enhance staff competencies, or hire experienced staff. Capacity building can include partnerships with academic institutions and professional bodies to offer relevant training and certifications. Inconsistencies in accounting criteria and challenges in obtaining necessary data or documents are reporting complexity issues that can significantly affect a report's accuracy and timeliness. Implementing more effective procedures can mitigate risks while avoiding errors and inaccuracies. Reducing reporting complexity is crucial for ensuring a smoother and more feasible transition to CFR. This study also highlighted the need to increase the leadership focus on CFR adoption. Strengthening top management commitment may facilitate smoother CFR implementation. Furthermore, the legal requirements to adhere to MPSAS 35, or MFRS, for the presentation of consolidated financial statements are key to ensuring that relevant organisations consolidate the entities controlled, thus increasing trust and transparency in business financial activities.

While the MPSAS 35 (consolidated financial statements) establishes the formal framework for CFR implementation, its adoption across ministries, statutory bodies, and government-linked entities remains gradual and uneven. This highlights implementation gaps arising from varying levels of readiness, technical capacity, and resource allocation among controlled entities rather than a lack of regulation. Through the AGD and the National Audit Department (NAD), the government has taken significant steps to enforce MPSAS compliance by providing guidelines, training, and phased implementation plans. Due to the limited integration of financial management systems, inconsistent interpretation of control relationships, and inadequate technical expertise in consolidation reporting, existing measures may remain insufficient in ensuring uniform adoption. Therefore, the suggestion for policymakers to design and implement additional policies should be interpreted as a call for enhanced institutional support, enforcement mechanisms, and sustained capacity-building initiatives not as a criticism of existing regulations but as a strategy to improve implementation and accountability. Providing such clarification would ensure that the study implications accurately reflect the ongoing reform efforts while constructively identifying policy areas that require reinforcement to achieve robust CFR implementation nationwide.

In advancing the current body of knowledge on financial reporting, this study provided key theoretical, practical, and methodological implications for practitioners and policymakers to implement and evaluate policies. The preparation of Malaysian government-controlled entities for CFR implementation denotes how institutional and legal contexts shape financial reporting practices. The elicited data reflected the institutional idea that organisations adopt specific practices due to regulatory coercion, normative pressure from professional networks, and mimetic pressure from industry leaders. Such entities' CFR implementation preparedness implies that they are responding to institutional pressures to comply with national financial reporting standards. Under the resource-based view, organisations with skilled employees and supportive top management can better implement complex financial reporting systems. The readiness for CFR adoption implies that well-resourced organisations can effectively navigate regulatory compliance challenges.

The study findings can also be interpreted through the lenses of commander, agency, and stakeholder theories. Based on the commander theory, the Federal Government of Malaysia (central authority) demonstrated readiness and leadership in implementing CFR ensuring that controlled entities comply with national financial reporting standards. This reflects the government's strategic role in directing, coordinating, and maintaining accountability within public and government-linked entities. Following the agency theory, CFR implementation reduced information asymmetry between managers (agents) and owners or the government (principals), ensuring that managers act for the greater good of owners and stakeholders. The significance of IT support, staff competence, and top management commitment indicated that strong internal governance and oversight reduce agency conflicts and promote transparent reporting. From the perspective of the stakeholder theory, CFR enhanced transparency, accountability, and trust among diverse stakeholders (including the public, regulators, and investors) by aligning reporting practices with societal expectations and governance norms. The emphasis on strategic alignment, capacity building, and reduction of reporting complexity ensures that financial information reinforces legitimacy and public confidence in financial governance by serving internal decision-makers and broader stakeholder interests.

Consolidation challenges must be addressed to maintain the overall integrity of the financial reporting process. To update or change the CFR requirements for government-controlled entities, a framework must be refined to appropriately represent their unique nature and operations. It should account for broader socio-economic goals and interests of diverse stakeholders, including the government, public, and private investors. Based on the study, organisations require uniform accounting standards and aligned policies to generate consistent and reliable financial reports; clear reporting policies and procedures to enhance regulatory adherence and governance; consistent accounting policies and charts of accounts to promote unity in the organisation; aligned closing periods to streamline processes and reduce errors; upgraded finance systems to enhance innovation and improve financial management; and ongoing training and knowledge transfer to ensure the CFR process remains efficient and relevant. These actions will lead to better financial management, compliance, and stakeholder trust. The elicited outcomes aid in fostering greater trust in government operations and enhancing strategies for government-controlled entities to balance the interests of principals, agents, and various stakeholders through an appropriate financial reporting system. Potential scholars could consider examining additional variables that impact financial reporting efficiency and broaden the range of organisations by increasing the sample size.

Acknowledgment

The research was supported by Universiti Tun Hussein Onn Malaysia (UTHM) through the Accountant General’s Department of Malaysia Contract Grant (Vot K576).

References

Abu Afifa, M. M., Saleh, M. I., & Almaqtari, F. A. (2022). Management accounting systems effectiveness, perceived usefulness and organisational outcomes: A contingency perspective. *International Journal of Organizational Analysis, 30*(5), 1204–1223. doi:10.1108/IJOA-07-2020-2288

Abu Hasan, H., Saleh, Z., & Isa, C. R. (2022). Malaysian Public Sector Accounting Standards (MPSAS) implementation in state governments of Malaysia: Status and challenges. *IPN Journal of Research and Practice in Public Sector Accounting and Management, 12*(01), 33–55. https://doi.org/10.58458/ipnj.v12.01.02.0075

Aceituno, F., Valeriano, J., Bolivar, R., & Pedro, M. (2006). The conceptual framework concept and the allocation of incomes in the consolidated entity: Its impact on financial ratios. *International Journal of Commerce and Management, 16*(2), 95–115. doi:10.1108/10569210680000210

Ajzen, I. (1991). The theory of planned behavior. *Organizational Behavior and Human Decision Processes, 50*(2), 179–211. doi:10.1016/0749-5978(91)90020-T

Aoki, Y., & Sawai, K. (2024). An economic analysis of consolidation accounting: The property rights approach. *Journal of Theoretical Accounting Research, 19*(2), 48–69. http://dx.doi.org/10.2139/ssrn.4757576

Association of Chartered Certified Accountants (ACCA). (2023). *Complexity in financial reporting. ACCA Global*. https://www.accaglobal.com/gb/en/professional-insights/global-profession/complexity-in-financial-reporting.html

Argento, D., Grossi, G., & Vollenweider, P. (2012). Explaining the consolidation of financial statements in the Swiss Federal Government. *Swiss Yearbook of Administrative Sciences, 3*(1), 11–22. https://doi.org/10.5334/ssas.36.

Baik, B., Johnson, M. F., Kim, K., & Yu, K. (2023, March 31). *Organization complexity, financial reporting complexity, and firms' information environment* [Working paper]. Social Science Research Network. https://doi.org/10.2139/ssrn.4413814

Bergmann, A., & Bietenhader, D. (2008, August 31–September 2). *Practices and opinions on consolidated financial reporting in Swiss cities* [Conference paper]. Whole-of-Government Financial Reporting: International Trends Workshop, Siena, Italy.

Bergmann, A., Grossi, G., Rauskala, I., & Fuchs, S. (2015). Consolidation in the public sector: Methods and approaches in Organisation for Economic Co-operation and Development countries. *International Review of Administrative Sciences, 82*(4), 763–783. https://doi.org/10.1177/0020852315576713

Bhattacharjee, S. (2015). The impact of regulatory framework on financial reporting. *Journal of Accounting and Finance, 55*(2), 32–49.

Bisogno, M., Cuadrado-Ballesteros, B., Citro, F., & Santis, S. (2019). Budgetary solvency of Italian local governments: An assessment. *International Journal of Public Sector Management, 32*(2), 122–141. https://doi.org/10.1108/IJPSM-11-2017-0328

Blankespoor, E., DeHaan, E. & Marinovic, I. (2020). Disclosure processing costs, investors' information choice, and equity market outcomes: A review. *Journal of Accounting and Economics, 70*(2-3), 101344.

Boex, J., Williamson, T., & Yilmaz, S. (2021). *Decentralisation, multilevel governance and intergovernmental fiscal relations: A primer*. World Bank. https://documents1.worldbank.org/curated/en/099225502022316135/pdf/P1754490fe142c0db095050e3808607c8ff.pdf

Brown, A., & Jones, P. (2019). The impact of legal separation on public sector accountability. *Public Administration Review, 79*(4), 511–523. doi:10.1111/puar.1304

Bricker, W. (2018, August). *The critical role of financial reporting.* The CPA journal. https://www.cpajournal.com/2018/08/14/the-critical-role-of-financial-reporting/

Bui, B. (2023). Strategic management accounting and performance: A contingency perspective. *Accounting Forum, 47*(1), 47–62. doi:10.1080/01559982.2022.2135052

Carini, C., Giacomini, D., & Teodori, C. (2018). Accounting reform in Italy and perceptions on the local government consolidated report. *International Journal of Public Administration, 41*(10), 792–804. https://doi.org/10.1080/01900692.2017.1423500

Carini, C., & Teodori, C. (2019). Making financial sustainability measurement more relevant: An analysis of consolidated financial statements. In E. Borgonovi, E. Anessi-Pessina, & C. Bianchi (Eds.), *Financial sustainability of public sector entities*, 111–130. doi:10.1007/978-3-030-06037-4_6

Cheng, M., Green, W., & Ko, J. (2014). The role of implementation readiness in the adoption of financial reporting standards. *Journal of Accounting Research, 52*(1), 95–119. doi:10.1111/1475-679X.12038

Christiaens, K., & Van Hulle, S. (2015). The impact of IPSAS on public sector financial reporting: A review of the literature. *International Journal of Public Sector Management, 28*(5), 372–391. doi:10.1108/IJPSM-12-2014-0146

Cîrstea, A., Nistor, C. S., & Tiron Tudor, A. (2017). Consolidated financial statements – A new challenge for the public sector administration. *Journal of Economic and Administrative Sciences, 33*(1), 46–65. https://doi.org/10.1108/jeas-04-2016-0012

Clarke, T. (2004). *The stakeholder corporation: A business philosophy for the information age*. Routledge.

Cordery, C. J., & Hay, D. (2024). Public sector audit: New public management influences and ecosystem-driven reforms. *Journal of Public Budgeting, Accounting & Financial Management*, *37*(4), 595–618. https://doi.org/10.1108/JPBAFM-07-2023-0124

Cuadrado-Ballesteros, B., & Bisogno, M. (2019). Efficiency and financial condition of local governments: The role of functional decentralization and managerial capacity. Lex Localis, *Journal of Local Self-Government, 17*(3), 505–528. https://doi.org/10.4335/17.3.505-528(2019)

Cuadrado-Ballesteros, B., & Bisogno, M. (2021). Public sector accounting reforms and the quality of governance. *Public Money & Management, 41*(2), 107–117. doi:10.1080/09540962.2020.1825230

Dello Sbarba, A., Garlatti, A., & Manes Rossi, F. (2024). Strategic configurations and strategic management accounting: A longitudinal case study in the credit mediation industry. *Journal of Accounting & Organizational Change, 20*(1), 18–40. doi:10.1108/JAOC-04-2024-0118

Elharon, E. O., & Hassan, N. A. (2025). The role of accounting in enhancing transparency and accountability in the public sector. *International Journal of Accounting and Management Studies, 7*(2), 88–102. doi:10.56830/IJAMS0720250

Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Cambridge University Press.

Garcia-Sanchez, I., Lasseron, D., & Manes Rossi, F. (2013). The impact of IPSAS on public sector financial reporting: A review of the literature. *International Journal of Public Sector Management, 28*(5), 372–39

Goldberg, L. (1965). *An inquiry into the nature of accounting*. American Accounting Association, Monograph No.7. State University of Iowa

Grossi, G. (2009). New development: Consolidated financial reporting as a stimulus for change in Italian local government. *Public Money and Management, 29*(4), 261–264. https://doi.org/10.1080/09540960903035056

Grossi, G., & Pepe, F. (2009). Consolidation in the public sector: A cross-country comparison. *Public Money & Management, 29*(4), 251–256. https://doi.org/10.1080/09540960903026250

Hair Jr, J. F., Celsi, M. W., Money, A. H., Samouel, P., & Page, M. J. (2015). *Essentials of business research methods* (3rd ed.). Routledge. https://doi.org/10.4324/9781315716862

Huynh, L. N., Khanh, T. H. T. & Hoang. T. X. (2024). The factors influencing the intention to adopt International Financial Reporting Standards (IFRS) of SMEs in Ho Chi Minh City, Vietnam. *Journal of Finance and Accounting, 12*(1), 1–11. https://doi.org/10.11648/j.jfa.20241201.11

International Public Sector Accounting Standards Board. (2015). IPSAS 35: Consolidated financial statements. In *International Public Sector Accounting Standards (2015 Handbook)*. New York, NY: IFAC.

Jensen, Michael C., & William H. Meckling. (1976) Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3*(4), 305–360. doi:10.1016/0304-405X(76)90026-X

Kaplan, R. S., & Norton, D. P. (2008). Mastering the management system. *Harvard Business Review, 86*(1), 62–77. Full text available at: https://hbr.org/2008/01/mastering-the-management-system

Khaw, K. W., Alnoor, A., Ganesan, Y., & Atshan, N. A. (2023). Reactions towards organizational change: A systematic literature review. *Current Psychology, 42*, 19137–19160. doi:10.1007/s12144-022-03070-6

Kim, I., & James, P.C (2021). A review and critique of commander theory. *International Journal of Accounting & Finance Review 6*(2), 74–80. doi:10.46281/ijafr.v6i2.1270

Kipilimba, T. F. (2024). Financial reporting revolution: How its integration drives efficiency and accuracy. *Current Research International, 24*(6), 534–557. doi:10.9734/acri/2024/v24i630395

Krishnan, S., Hsu, S., & Hsu, C. (2021). Management commitment and compliance with financial reporting standards: Evidence from emerging economies. *Asian Review of Accounting, 29*(2), 205–224. doi:10.1108/ARA-09-2020-0157

Le, V. (2023). Readiness of accountants in applying Vietnam public sector accounting standards: Study in Ho Chi Minh City. *International Journal of Professional Business Review, 8*(8), 1–18. https://doi.org/10.26668/businessreview/2023.v8i8.3621

Lee, H. Y. & Samuel, M. (2024). Decentralised centralism: Insights from a Malaysian cluster school of excellence. *Journal of International and Comparative Education. 9*(1), 5–18. https://doi.org/10.14425/jice.2024.9.1.23552

Malaysian Financial Reporting Standards (MASB). (2024). *Malaysian Financial Reporting Standards*. Malaysian Financial Reporting Standards-MASB

Malaysian Institute of Accountants (MIA). (2025, January 16). *MFRS and MPERS: Common issues on consolidation*. Accountants Today. https://www.at-mia.my/2025/01/16/mfrs-and-mpers-common-issues-on-consolidation/

Manes-Rossi, F., Citro, F., & Bisogno, M. (2016). Intellectual capital in action: Evidence from Italian local governments. *Journal of Intellectual Capital, 17*(4), 696–713. https://doi.org/10.1108/JIC-12 2015-0115

Manes-Rossi, F., Tiron-Tudor, A., & Orelli, R. L. (2019). Reflections on new trends in public sector reporting: Integrated reporting. In R. Mussari, R. L. Orelli, & F. Manes-Rossi (Eds.), *Public sector accounting, auditing and control* (pp. 197–215). Springer. https://doi.org/10.1007/978-3-030-40056-9_10

Mertens, D. & Thiemann, M. (2018). Market-based but state-led: The role of public development banks in shaping market-based finance in the European Union. *Competition and Change, 22* (2), pp.184–204. https://sciencespo.hal.science/hal-02184122v1

Mnif, Y., & Gafsi, Y. (2020). IFRS adoption and accounting quality: A comparative study. *Journal of Applied Accounting Research, 21*(1), 1–20. doi:10.1108/JAAR-08-2020-0155

Murphy, E. A., & McCarthy, M. A. (2010). Teaching consolidations accounting: An approach to easing the challenge. *American Journal of Business Education, 3*(11), 62–71.

Najid, N. A., & Abdul Rahman, R. (2011). Government ownership and performance of Malaysian government-linked companies. *International Research Journal of Finance and Economics, 61*, 1–15.

Najera Ruiz T, Collazzo P. (2021). Determinants of the use of accounting systems in microenterprises: Evidence from Chile. *Journal of Accounting in Emerging Economies, 11*(4), 632–650. doi: https://doi.org/10.1108/JAEE-07-2020-0173

Oulasvirta, L., & Rönkkö, J. (2023). Public financial management: Budgeting, accountability and auditing. In E. Pekkola, J.-E. Johanson, & M. Mykkänen (Eds.), *Finnish public administration: Nordic public space and agency* (pp. 111–126). Palgrave Macmillan. https://doi.org/10.1007/978-3-031-34862-4_7

Oulasvirta, L. O. (2022). Consolidated financial statement information and group reporting in the central government: A user-oriented approach. *Journal of Public Budgeting Accounting & Financial Management, 35*(6), 28–51. https://doi.org/10.1108/jpbafm-08-2022-0126

Pannell, R. (2023, April 5). *The importance of identifying the right sample size for business improvement.* LeanScape. https://leanscape.io/the-importance-of-identifying-the-right-sample-size-for-business-improvement/

Paulus J. A., Awang, J., Ramlee, R., Girau, E., Ag Kee, D., & Ikhsan, M. I. (2023). Enhancing accounting adoption in the Malaysian public sector: Challenges and the key success factors. *Borneo Akademika, 7*(2), 47–58. https://ir.uitm.edu.my/id/eprint/89626/

Phan D, Joshi M, & Mascitelli B (2018), What influences the willingness of Vietnamese accountants to adopt International Financial Reporting Standards (IFRS) by 2025?. *Asian Review of Accounting, 26*(2), 225–247, doi: https://doi.org/10.1108/ARA-03-2017-0052

Saleh, Z., Isa, C. R., & Abu Hasan, H. (2021). Issues and challenges in implementing International Public Sector Accounting Standards (IPSAS). *IPN Journal of Research and Practice in Public Sector Accounting and Management, 11*(1), 1–14. https://doi.org/10.58458/ipnj.v11.01.01.0067

Sánchez-Serrano, J. R., Alaminos, D., García-Lagos, F., & Callejón-Gil, A. M. (2020). Predicting audit opinion in consolidated financial statements with artificial neural networks. *Mathematics, 8*(8), 1–14. https://doi.org/10.3390/MATH8081288

Santis, S., Grossi, G. & Bisogno, M. (2018). Public sector consolidated financial statements: A structured literature review. *Journal of Public Budgeting, Accounting & Financial Management, 30*(2), 230–251. https://doi.org/10.1108/JPBAFM-02-2018-0017

Smith, J. (2020). Accounting separation and public sector accountability. *Journal of Public Administration, 45*(2), 123–145.

Sotti, F. (2018). The value relevance of consolidated and separate financial statements: Are non-controlling interests relevant? *African Journal of Business Management, 12*(11), 329–337. https://doi.org/10.5897/AJBM2017.8335

Sulaiman, K. F., Satriawan, I., & Musa, N. (2025). A comparison of decentralization policy in Indonesia and Malaysia. *Petita Jurnal Kajian Ilmu Hukum dan Syariah, 10*(1), 1–18. https://doi.org/10.22373/petita.v10i1.677

Surganovich, J. (2024). *Navigating regulatory changes in financial reporting*. Reach Reporting. https://reachreporting.com/blog/financial-reporting-regulatory-changes

Tawiah, V. (2023). The effect of IPSAS adoption on governance quality: Evidence from Developing and Developed Countries. *Public Organization Review, 23*(1), 305–324. https://doi.org/10.1007/s11115-022-00625-w

Tilahun, M. (2019). A review on determinants of accounting information system adoption. *Science Journal of Business and Management, 7*(1), 13–19. https://doi.org/10.11648/j.sjbm.20190701.13

Tran, Y. T., Tran, T. T. C., & Hoang, T. C. (2020). Determinants of the implementation of the public-sector consolidated financial statements in Vietnam. *Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis, 68*(5), 903–913. doi: 10.11118/actaun202068050903

Walker, R. (2009). Public sector consolidated statements – An assessment. *Abacus, 45*(2), 171–220. https://doi.org/10.1111/j.1467-6281.2009.00282.x

Walker, R. G. (2011). Issues in the preparation of public sector consolidated statements. *Abacus, 47*(4), 477–500. https://doi.org/10.1111/j.1467-6281.2011.00349.x

Wise, V. (2010). Theory and accountability: The case of government consolidated financial reporting. *International Review of Business Research Papers, 6*, 82–97.

Woods, M., & Humphrey, C. (2009). Complexity and financial reporting: Challenges and solutions. *Accounting, Auditing & Accountability Journal, 22*(2), 282–306. https://doi.org/10.1108/09513570910933940

World Bank (2024). *Consolidation of financial statements at different levels of government: Technicalnote*. https://documents.worldbank.org/en/publicationdocuments-reports documentdetail/099032824083468542

Yusliza, M. Y., Norazmi, N. A., Jabbour, C. J. C., Fernando, Y., Fawehinmi, O. & Seles, B. M. R. P. (2019). Top management commitment, corporate social responsibility and green human resource management: A Malaysian study. *Benchmarking: An International Journal, 26*(6), 2051–2078. https://doi.org/10.1108/BIJ-09-2018-0283

Zhang, D. (2019). Top management team characteristics and financial reporting quality. *The Accounting Review, 94*(5), 349–375. https://doi.org/10.2308/accr-52360