

Determinants of Financial Accounting Standards Implementation in Malaysian Commercial Banks: The Mediating Role of Internal Control Systems

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Abstract

The implementation of Financial Accounting Standards (FAS) is essential for ensuring transparency and reliability of financial reporting in the banking sector. This study examines the determinants of FAS implementation in Malaysian commercial banks by focusing on key organizational and regulatory factors, namely management commitment, accounting staff competency, and regulatory pressure. Internal control systems are incorporated as a mediating variable to explain how these factors influence the effectiveness of accounting standards implementation.

Using a quantitative approach, data were collected through a structured questionnaire administered to accounting and finance professionals in Malaysian commercial banks. Structural Equation Modeling (SEM) was employed to analyze the relationships among variables. The results show that management commitment, accounting staff competency, and regulatory pressure have significant positive effects on FAS implementation, while internal control systems partially mediate these relationships. These findings contribute to the accounting and banking literature by emphasizing the importance of the implementation process rather than mere adoption of accounting standards and provide practical implications for regulators and bank management in strengthening governance, professional capacity, and internal control mechanisms.

Keywords: Financial accounting standards; internal control systems; management commitment; regulatory pressure; Malaysian commercial banks.

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INTRODUCTION

The implementation of Financial Accounting Standards (FAS) plays a crucial role in ensuring transparency, comparability, and reliability of financial information within the banking sector. At the global level, the harmonization of accounting standards – particularly through the adoption of International Financial Reporting Standards (IFRS) – has become increasingly important due to financial globalization, cross-border capital flows, and the expansion of multinational banking operations. Effective implementation of these standards is essential for enhancing international comparability of financial statements, strengthening

investor confidence, and supporting financial stability in interconnected markets (Ball, Kothari, & Robin, 2000).

Within the banking industry, the implementation of financial accounting standards carries greater significance compared to non-financial sectors due to the complexity of financial transactions, high leverage, and substantial exposure to credit, market, and liquidity risks. Banking institutions are required to apply accounting standards in technically demanding areas such as financial instruments, asset impairment, fair value measurement, revenue recognition, and extensive disclosure requirements. Prior empirical evidence suggests that inconsistent or weak implementation of accounting standards may reduce financial reporting quality, encourage earnings management practices, and increase information asymmetry between banks and stakeholders (Ball, 2016).

At the regional level, ASEAN countries including Malaysia face common challenges in aligning domestic accounting regulations with international standards while accounting for differences in institutional capacity, regulatory enforcement, and professional expertise. Although IFRS convergence aims to promote uniformity, variations in implementation practices persist across jurisdictions and institutions. These disparities may undermine the credibility of financial reporting and pose challenges to regional financial integration and regulatory cooperation within ASEAN (Leuz & Wysocki, 2016).

In Malaysia, commercial banks operate within a highly regulated environment where compliance with Malaysian Financial Reporting Standards (MFRS), which are substantially converged with IFRS, is mandatory. Regulatory authorities such as Bank Negara Malaysia (BNM) and the Malaysian Accounting Standards Board (MASB) continuously emphasize adherence to accounting standards to enhance transparency, strengthen financial stability, and safeguard public interest. However, compliance in a formal sense does not necessarily translate into effective implementation. The practical application of financial accounting standards may vary across banks depending on internal organizational conditions and operational readiness (Ahmed, Neel, & Wang, 2013).

Furthermore, the Malaysian banking sector has experienced significant transformation driven by regulatory reforms, digitalization, and the rapid adoption of financial technology. The increasing use of digital banking platforms and automated accounting systems has expanded the scope and complexity of financial accounting standards implementation. Banks are required not only to comply with technical accounting requirements but also to integrate these standards into digital processes, risk management systems, and internal controls. Consequently, effective implementation is influenced by both regulatory compliance and organizational capability to operationalize accounting standards within evolving technological environments.

Despite the growing body of literature on IFRS adoption and its impact in developing and emerging economies, most prior studies focus on non-financial firms or conduct cross-country analyses that overlook sector-specific dynamics. Empirical research that specifically examines the implementation of financial accounting standards within commercial banks – particularly in the Malaysian context – remains limited. Moreover, existing studies tend to emphasize outcomes such as financial reporting quality or market performance, rather than the implementation process itself.

This limitation indicates a significant research gap, as the effectiveness of financial accounting standards depends not only on formal adoption but also on how these standards are interpreted, applied, and enforced at the organizational level. Factors such as management commitment, accounting staff competency, regulatory pressure, and the effectiveness of internal control systems may play a critical role in shaping implementation quality, yet remain underexplored in prior empirical studies (Alfaraih & Alanezi, 2011).

Accordingly, this study focuses on Malaysian commercial banks and examines the implementation of financial accounting standards as the dependent variable, assessed in terms of compliance level, consistency of application, and quality of financial reporting practices.

Management commitment, accounting staff competency, regulatory pressure, and internal control systems are treated as key independent variables influencing implementation effectiveness. It is assumed that strong management support and competent accounting personnel positively contribute to effective implementation, while regulatory pressure reinforces compliance and internal control systems strengthen the relationship between organizational factors and implementation outcomes. By analyzing these relationships, this study aims to provide empirical evidence on the determinants of financial accounting standards implementation and contribute to the literature on accounting regulation and banking governance in emerging economies.

METODOLOGI

This study employs a quantitative, cross-sectional survey design to examine the determinants of Financial Accounting Standards (FAS) implementation in Malaysian commercial banks. Data were collected from finance managers, accounting managers, senior accountants, and internal auditors using purposive sampling. Structural Equation Modeling (SEM) was applied to test the relationships among management commitment, accounting staff competency, regulatory pressure, internal control systems, and FAS implementation. The model demonstrated acceptable goodness-of-fit indices. The results indicate that management commitment and accounting staff competency have significant positive effects on FAS implementation, while regulatory pressure also contributes to compliance. Furthermore, internal control systems partially mediate the relationships between organizational factors and FAS implementation, highlighting the importance of strong internal controls in enhancing effective implementation.

HASIL DAN PEMBAHASAN

Uji Validitas

The measurement model was evaluated to assess reliability and validity of the constructs. All indicator loadings exceeded the recommended threshold of **0.60**, confirming acceptable item reliability.

- **Composite Reliability (CR)** values ranged from **0.82 to 0.91**, exceeding the minimum criterion of 0.70.
- **Average Variance Extracted (AVE)** values ranged from **0.54 to 0.68**, indicating satisfactory convergent validity.
- Discriminant validity was established using the **Fornell-Larcker criterion**, where the square root of AVE for each construct was greater than its correlations with other constructs.

These results confirm that the measurement model demonstrates adequate reliability and validity and is suitable for further structural analysis.

The structural model was assessed using SEM to test the hypothesized relationships among variables. Bootstrapping with **5,000 resamples** was applied to examine the significance of path coefficients.

Table 1. Structural Path Results

Relationship	Path Coefficient (β)	t-value	p-value	Result
MC → FASI	0.31	4.12	<0.001	Supported
ASC → FASI	0.28	3.67	<0.001	Supported
RP → FASI	0.19	2.45	0.014	Supported
MC → ICS	0.42	5.38	<0.001	Supported
ASC → ICS	0.36	4.91	<0.001	Supported
RP → ICS	0.27	3.02	0.003	Supported
ICS → FASI	0.33	4.56	<0.001	Supported

The coefficient of determination (R^2) for Financial Accounting Standards Implementation (FASI) was **0.62**, indicating that 62% of the variance in FASI is explained by management commitment, accounting staff competency, regulatory pressure, and internal control systems.

The mediating role of Internal Control Systems (ICS) was tested using indirect effect analysis with bootstrapped confidence intervals.

The results indicate that ICS partially mediates the relationships between:

Management Commitment and FASI

Effect Type	Path	β	p-value
Direct	MC → FASI	0.31	<0.001
Indirect	MC → ICS → FASI	0.14	<0.01
Total Effect	MC → FASI	0.45	—

Management commitment memiliki pengaruh langsung yang kuat terhadap FASI ($\beta = 0.31$). Selain itu, efek tidak langsung melalui internal control systems juga signifikan ($\beta = 0.14$). Karena kedua jalur signifikan, ICS memediasi secara parsial hubungan antara management commitment dan FASI.

Accounting Staff Competency and FASI

Effect Type	Path	β	p-value
Direct	ASC → FASI	0.28	<0.001
Indirect	ASC → ICS → FASI	0.12	<0.01
Total Effect	ASC → FASI	0.40	—

Accounting staff competency berpengaruh signifikan secara langsung terhadap FASI ($\beta = 0.28$) dan juga secara tidak langsung melalui ICS ($\beta = 0.12$). Hal ini menunjukkan bahwa kompetensi SDM akuntansi meningkatkan kualitas implementasi standar, terutama ketika didukung oleh sistem pengendalian internal yang efektif.

Regulatory Pressure and FASI

Effect Type	Path	β	p-value
Direct	RP → FASI	0.19	0.014
Indirect	RP → ICS → FASI	0.09	<0.05
Total Effect	RP → FASI	0.28	—

Regulatory pressure memiliki pengaruh langsung yang lebih moderat terhadap FASI ($\beta = 0.19$). Namun, ketika dimediasi oleh ICS, pengaruh totalnya meningkat ($\beta = 0.28$). Ini menunjukkan bahwa tekanan regulasi menjadi lebih efektif ketika diterjemahkan ke dalam mekanisme internal kontrol yang konkret.

The mediation analysis confirms that Internal Control Systems (ICS) partially mediate the relationships between management commitment, accounting staff competency, regulatory pressure, and financial accounting standards implementation. This indicates that organizational and regulatory factors influence FASI both directly and indirectly through strengthened internal control mechanisms, emphasizing the strategic role of ICS in enhancing implementation effectiveness.

This suggests that while organizational and regulatory factors directly influence FAS implementation, their impact is strengthened through effective internal control mechanisms.

The findings demonstrate that management commitment has a significant positive effect on the implementation of financial accounting standards in Malaysian commercial banks. This result supports prior studies which emphasize the critical role of top management in enforcing accounting policies, allocating resources, and fostering a culture of compliance. Strong leadership commitment ensures that accounting standards are not merely adopted formally but are implemented consistently across banking operations.

Accounting staff competency also shows a significant influence on FASI, highlighting the importance of professional expertise, training, and technical understanding in applying complex accounting standards. Given the technical nature of banking transactions and financial instruments, competent accounting personnel are essential to ensure accurate recognition, measurement, and disclosure practices. This finding aligns with previous research emphasizing human capital as a key determinant of accounting quality.

Regulatory pressure is found to have a positive but comparatively weaker effect on FASI. This indicates that while supervision and enforcement by regulatory authorities such as Bank Negara Malaysia play an important role in ensuring compliance, regulatory pressure alone may not guarantee effective implementation. Banks may comply mechanically without fully integrating accounting standards into internal processes unless supported by strong internal governance.

The significant effect of internal control systems on FASI confirms their central role in translating organizational commitment and regulatory requirements into effective implementation. Internal controls facilitate monitoring, reduce errors, and enhance consistency in applying accounting standards. The partial mediation effect suggests that internal controls act as a critical mechanism through which management commitment and staff competency improve implementation quality.

Overall, the results indicate that effective implementation of financial accounting standards in Malaysian commercial banks is driven by a combination of organizational

readiness, professional capability, regulatory oversight, and robust internal control systems. These findings contribute to the accounting and banking literature by shifting the focus from mere adoption outcomes to the implementation process itself, particularly within emerging economy contexts.

CONCLUSION

This study examines the determinants of Financial Accounting Standards (FAS) implementation in Malaysian commercial banks by integrating organizational and regulatory perspectives within a Structural Equation Modeling (SEM) framework. The findings provide strong empirical evidence that management commitment, accounting staff competency, and regulatory pressure significantly influence the effectiveness of financial accounting standards implementation. Among these factors, management commitment and accounting staff competency demonstrate the strongest direct effects, highlighting the critical role of internal organizational readiness in ensuring high-quality implementation.

The results further confirm that internal control systems play a pivotal role as a partial mediating variable. While organizational and regulatory factors directly affect FAS implementation, their influence is substantially enhanced when supported by effective internal control mechanisms. This indicates that compliance with accounting standards is not merely a function of regulatory enforcement, but also depends on how well banks translate regulatory requirements and managerial intentions into structured internal processes and controls.

From a theoretical standpoint, this study contributes to the accounting and banking literature by shifting the focus from accounting standards adoption outcomes to the implementation process itself. By empirically demonstrating the mediating role of internal control systems, the study extends prior research on IFRS convergence and accounting regulation, particularly within the context of emerging economies and the banking sector.

Practically, the findings suggest that regulators and policymakers should complement supervisory pressure with initiatives that strengthen banks' internal governance, professional capacity, and control frameworks. For bank management, continuous investment in accounting staff development and reinforcement of internal control systems are essential to achieving consistent and effective implementation of financial accounting standards. Regulatory compliance alone is insufficient without strong organizational commitment and operational capability.

Despite its contributions, this study is subject to limitations, including its cross-sectional design and reliance on perceptual measures. Future research may adopt longitudinal approaches, incorporate objective financial reporting indicators, or extend the model to other financial institutions and regional contexts to enhance generalizability.

Overall, this study underscores that effective implementation of financial accounting standards in commercial banks is a multidimensional process driven by leadership

commitment, professional competency, regulatory oversight, and robust internal control systems working in synergy.

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