

Budgetary Mismanagement: A Qualitative Study of the Malaysian Public Sector*

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Abstract: The public gets flabbergasted with various issues of budgetary mismanagement that keeps surfacing over the years in the public sector. The Auditor General Reports have highlighted three core issues of budgetary mismanagement which regularly surround the public sector – especially in overspending, shortfall and bunching expenditure. The public sector’s budgetary management remains dreary despite the numerous efforts and initiatives employed by the government to improve its performance. Indeed, it is obvious that some of the initiatives and efforts introduced have proven less potent in bringing any significant wave of change in the public sector’s budgetary management. This study aims to explore numerous factors that lead to the persistent prevalence of budgetary mismanagement in the public sector. Six federal government institutions were selected, while interviews and focus group discussions were conducted as platforms to obtain the relevant feedback from 28 public officials who were directly involved in budgetary management. To comprehend further, the contextual descriptions which influence the performance of public organisations from both mechanical and behavioural perspectives are also discussed.

Keywords: Budgetary mismanagement, overspending, public sector budgeting, shortfall
JEL classification: E65, G28, H61, H83, M42

1. Introduction

The disclosure of the National Feedlot Corporation’s financial crisis in the *2010 Auditor General Report* (National Audit Department, 2011) triggered a first wave of major shock to the public. The RM250 million scandal is one of many examples of the dark side in public financial mismanagement in the country where there are aplenty. Looking at the various public financial crises previously and presently, it almost portrays that public financial management is really in a quandary, obviously suggesting opportunities in the processes and procedures as the key causes.

Budgetary management is not a common term used by many literatures in discussing issues about public money and spending. The most commonly used term

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in the relevant literature is financial management. The trend suggests that the term budget is used in literature only in fields like budgetary process and model or type of budgeting (McGill, 2001; Ibrahim, 2011).

Most of the issues involving budgetary management are financial non-compliant which brought about ill-effects on the accountability of the government. The Auditor General's Report outlines issues of public sector non-compliance of rules, regulations and policies. In addition, there is the issue of non-compliance to financial regulations with respect to financial management and poor assets management (Lee, 2015). The Auditor General's Department sets different focus for different years. For the 2008, 2009 and 2010 Auditor General's Reports, the key focus was on the operating budget with three main issues that remain unsolved being spending without allocation, expenditure that exceeds allocation, and poor planning in spending allocated resources. For 2012 till 2014, the Auditor General's Reports focused on spending performed in the current year for a budget that was approved for the preceding year. This caused the ministries involved to request for supplementary allocations in the current year. The 2014 Report looked at shortfalls in spending but these were not raised in 2012, 2013 and 2015. Likewise, overspending was not the focus in 2012, 2013 and 2015.

The most alarming part that attracts the attention of taxpayers is that some of the ministries involved in these particular issues are those who received large allocations. And to the surprise of all parties, these issues continue to prevail within the same ministries from one year to the next without showing any signs of improvement.

Although there were quite substantial reports on operating expenditure mismanagement by the National Audit Department (NAD) in its 2008, 2009 and 2010 Auditor General's Report, it is still believed that the overall performance of public financial management remains intact. Except for some weaknesses which have been previously highlighted, the overall performance of public financial management particularly with regards to operating expenditure has improved significantly. This can be backed by the fact that mismanagement issues involving operating expenditure is declining, both in terms of the frequency and also the amount involved. A summary of key issues involved in these three years is highlighted in Table 1.

Budgeting mismanagement in the public sector, especially the federal government, will aggravate two major problems already embedded in the Malaysian economy. First, it contributes to a further budget deficit, and second, the loss of income tax revenue to

Table 1. Budgetary mismanagement issues, 2008-2010

Category	Description	2008	2009	2010
Spending without allocation	No. of cases	8	9	0
	Amount (RM mil.)	0.52	1.04	0.00
Spending exceeding allocation (Overspending)	No. of cases	317	109	75
	Amount (RM mil.)	5700.43	527.43	306.01
Original allocation not spent (Shortfall)	No. of cases	105	77	46
	Amount (RM mil.)	87.08	96.33	24.95

Source: National Audit Department (2009; 2010; 2011).

the federal government. It was reported that during the period 1970 to 2008, Malaysia enjoyed a surplus budget for only five years from 1992 to 1997. Apart from these years, Malaysia's budget was always in deficit regardless of economic performance and this drives some to suggest that Malaysia's deficit is structural in nature (Narayanan, 2007). According to the Asian Development Bank, Malaysia's deficit to gross domestic product (GDP) ratio was the highest among all ASEAN countries between the periods 2000 to 2003 and 2004 to 2006. It was reported that Malaysia's deficit was second only to Vietnam. From then till 2012, the deficit ratio has remained at above 4 percent before settling at 3.5 percent of GDP.

Undoubtedly, if the government fails to manage its budget prudently, there is a high possibility that the government will be engulfed by serious budget deficits and debts. To follow the discussions on the repercussion of budget deficit and debt, Mill (1848) and Buchanan (1958) believe that both phenomena pose a lethal impact not only to the present generation but also to future generations (as cited in Rowley, 1986). It is surprising that a key agency that is empowered to manage government finance is also one of the most common agency highlighted in the Auditor General's Report as having a poor rating for Accountability Index (National Audit Department of Malaysia, 2016). The deterrence theory advocates using punitive measures such as general, specific and incapacitation to prevent a recurrence of wrongdoings (Hodges, 2015). Even then, budget mismanagement still persists. Jaafar, Aziz and Ramli (2016) found that weak enforcement impedes compliance with regulations especially in the public sector.

It is in view of addressing these administrative leakages in the budgeting system that the Malaysian Government implemented the Outcome Based Budgeting (OBB) system beginning 2012, for which the government, through its annual budget circulars request outcome information from all public organisations to monitor its compliance (Curristine, Betley, Clifton, & Sell, 2015). In this regard, the main objective of the study is to identify the causes of budgetary mismanagement in the Malaysian public service (MPS). This study provides a clearer picture of the reasons behind budgetary mismanagement prevalence and the detrimental effects this will have on the MPS.

2. Methodology

In line with the research objective and literature review, this paper is guided by the theoretical framework as depicted in Figure 1. This theoretical framework is profoundly inspired by the Foucauldian theoretical frame which denotes that governments will engage various measures to overcome fraudulent practices in the public sector (Foucault, 1991). Based on this theoretical framework, the prevalence of budgeting mismanagement issues in the public sector is caused by various weaknesses (Rahaman, 2009; Zan & Xue, 2011). These weaknesses not only originate from the structural or mechanical failures such as the absence of specific budget law (Zan & Xue, 2011), the lacklustre role of auditing (Al Athmay, 2008; Rahaman, 2009) and the deficiency in incorporating management tools (Hoque, 2008; Kulshreshtha, 2008; Verbeeten, 2011) but also from the behaviour of public officials (Dittenhofer, 2001; Ehrenhard, Muntslag, & Wilderom, 2012; Rahaman, 2009). This explanation may provide initial clues to

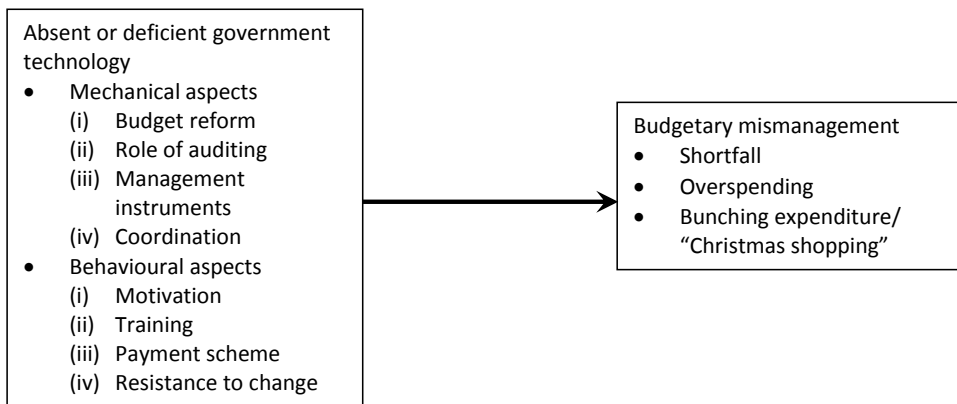


Figure 1. Theoretical Framework
 Source: Foucault (1991).

the question of why budgeting mismanagement issues persistently prevail in the Malaysian public sector despite numerous preventive and proactive initiatives taken to rectify them.

Thus, this theoretical framework suggests that the absence or deficiency of government technologies in both mechanical and behavioural aspects may be strong reasons why budgetary mismanagement still remains an unresolved issue in the Malaysian public sector. Based on the literature, it is believed that the answer for this puzzle has something to do with public officials.

For this study, we focus on the years 2008 to 2010 as the Auditor General’s Reports then focused on three common issues – spending without allocation, expenditure beyond budgeted allocation and poor planning in spending allocated resources.

2.1 Data Collection

Six federal government agencies have been identified as subjects of the study: the Prime Minister’s Department, Ministry of Home Affairs, Ministry of Tourism and Culture, Ministry of Plantation Industries and Commodities, the Public Service Department and the Malaysian Royal Customs Department. These agencies were selected as they were referred to in the relevant Auditor General’s Reports, and represented a variety of public agencies with different structures. One of these agencies has been selected for its excellence in financial management.

In light of this, primary data collection is split into two forms: personal interviews with managers who are involved directly in the ministerial or departmental budgetary preparation and through six focus group discussions comprising of eight to ten members per group, with a moderator leading the discussion for about two hours on a specific topic, concept or product (Sekaran, 2003). The data collection for the study is done on a one-shot basis in which personal interviews and focus group discussions are conducted on the same day.

Secondary data refers to information in the 2008, 2009 and 2010 Auditor General's Reports. This forms the first layer data that represented some of the evidence of budgeting mismanagement in the Malaysian public sector.

2.2 Measurement and Instrument

The questions posed in the focus group discussions and personal interviews are specifically designed to answer all the objectives prescribed above, and are also structured to reflect important themes, i.e. budgetary reform (Ibrahim 2011; McGill, 2011; Zan & Xue 2011); the role of auditing (Al Athmay, 2008; Rahaman, 2009); management instrument (Real, 2008; Vakkuri, 2010; Verbeeten, 2011); resistance to change (Ehrenhard, Munstlag, & Wilderom, 2012; Norhayati & Nabiha, 2009; Rahaman, 2009); and managing change (Oakland & Tanner, 2007; Sayles & Strauss, 1966).

Moreover, in order to capture these themes, the constructs are structured into four dimensions for the focus group discussions while the personal interviews carry a further five dimensions. Several protocols have been set up in order to ensure that focus group discussions and personal interviews run smoothly. Firstly, all questions posed in focus group discussions and personal interviews are tabled to the top management of the agency. Secondly, in both sessions, the focus group discussions and personal interviews commenced with an introductory note on the objectives of the study and how this study is deemed important to the government agencies. Thirdly, during these sessions, questions are presented verbally as well as in document form. For the focus group discussions, questions are also presented using PowerPoint slides while during personal interview sessions, budget managers are provided with a set of documents that contain the relevant questions. Fourthly, in the focus group discussions, every participant is given a paper tag for data transcription. Fifthly, all focus group discussions and personal interviews are limited to a maximum of two hours and one hour, respectively.

2.3 Data Analysis

One of the important features in analysing qualitative data is an audit trail, as suggested by Gill and Johnson (2010). This is to allow future researchers and readers to understand and then to evaluate why particular findings have been made. Besides, it also helps future researchers and readers to follow the process of analysis established before as follows.

2.3.1 Organising the Data Set

After the interviews and focus group discussions sessions were completed, the handwritten notes were transcribed and transferred into Microsoft Word immediately and are done no later than three days. Soon after, each transcript is printed and put in different envelopes according to the respective ministries and departments, and the original handwritten form of the transcripts is also enclosed together.

2.3.2 Getting Acquainted with the Data

The data collected were read several times and those that have important contents are related to the major and common themes, sub-themes and also patterns or trends which can be excerpted from the data set.

2.3.3 Classifying, Coding and Interpreting the Data

A mapping technique is used to identify other important contents of the data set like sub-themes and other patterns which link to the main theme and sub-themes in the data set. It is a graphical display of concepts and their interrelations (Babbie, 2007). Two major techniques were selected in assisting the analysing process, being pattern matching (Saunders, Lewis, & Thornhill, 2009) and explanation building (Yin, 2003). In order to simplify the process, a coding technique was used in this stage. First, codes were employed to: (a) differentiate the ministries and departments so that data from these ministries and departments are not exchanged by any chance during the analysis process; (b) represent each of the main theme and sub-themes; and (c) differentiate response of support staff from budget managers. Second, coding was also used to represent certain responses to particular questions. This is to establish the relationship between specific data with the data that have surfaced from the first coding process.

3. Findings

The findings of the study are presented into five main themes as recommended by Rowley (2012), i.e. awareness and reaction, causes of the disease, antidote for the disease, resistance to change and management support.

3.1 Awareness and Reaction

During the interviews and focus group discussions, all respondents declare that they are aware of the three issues which have been labelled by the National Auditor's Department as an epidemic in the public sector, and confirm that these issues are persistent problems with regard to budgetary mismanagement in their respective ministries or departments. However, none of the ministries and departments suffer directly from these issues.

Some respondents confessed that these issues are very challenging to address as these have turned to be a culture in their ministries and departments through lack of coordination, lack of systemic monitoring, insufficient human resource, external factors, policy inconsistency and negligence. In certain cases, explanations given by the support staff are more detailed and comprehensive as compared to the budget managers. In this case, the degree of awareness on budgetary mismanagement issues possessed by support staff is higher than the budget managers themselves. Furthermore, it is also found that only ministries and departments which handle large scale budgets (usually more than RM1 billion per year, or about USD240 million) and those that house many agencies under their umbrella are suffering from the budgetary mismanagement issues.

The biggest challenge encountered by the large ministries and departments is the lack of coordination and the absence of intact monitoring.

Based on information collected under this theme, it is concluded that the budgetary mismanagement as reported in the Auditor General's Reports is genuine and persistent in the Malaysian public sector and is a multifaceted phenomenon. Besides, there is a clear discrepancy in terms of the knowledge of the budgetary mismanagement issue between support staff and budget managers, while the larger ministries and departments are the government agencies which are more likely to be infected by the main issues in budgetary mismanagement.

3.2 Causes of the 'Disease'

In this light, budgetary mismanagement is perceived as a chronic disease that is detrimental not only to public administration but also to national macroeconomic management as well. When respondents are asked about the factors they think might hinder their respective ministries and departments from exercising high quality budgetary management, three have been established.

First, there are areas in which spending is inevitable even though on paper it is not budgeted for. This is a very sensitive area with regard to security and safety matters. Spending without allocation (overspending) undoubtedly entraps such ministry or department under the cloak of budgetary mismanagement. Second, the payment system currently in use allows spending without allocation under certain financial codes, like 23000. Hence, even with insufficient allocation, certain expenditure can still be performed. This may lead to the agency's account going into deficit at the end of the calendar year. Third, insufficient allocation in some ministries and departments also results from unrealistic reduction in the budget ceiling set by the Ministry of Finance. This unrealistic budget ceiling which is far from meeting the actual needs of the ministries and departments affects the daily operation of these institutions.

Apart from insufficient allocation, other factors include absence of top management's support, complexity of task, insufficiency of suitable training, complexity of standard operational procedures, inadequate delegation of power and lack of coordination. Factors that are less significant include the absence of a budgetary system and management instrument. This finding contradicts with what has been implemented by the government whereby the budgetary system and managing instrument have become the two most popular ways in improving budgetary management.

3.3 Antidote for the 'Disease'

The third theme explores public officials' perspective on how budgetary mismanagement issues can be addressed. Sufficient allocation remained as the most favourite element which could help public officials address budgetary mismanagement issues in their respective ministries and department, while top management support is selected as the next important element. Other favourite elements chosen by respondents are clear demarcation in the line of authority, sufficient hands-on and formal training, precise standard operational procedure, intact coordination and cooperation between various units, sections, or divisions in the respective ministries and departments.

Under this theme, respondents were required to name some of the initiatives that have been introduced to them in order to address budgetary mismanagement. A majority of them mentioned that the adoption of the ISO 9000 and key performance indicators (KPIs) are among the recent initiatives implemented. However, it is quite surprising to hear them quote the need for training, program to boost internal co-ordination, revision of job description and standard operational procedure, and top management support as not having been given priority. For instance, a majority of the respondents do not deny that they have attended various training over time; however, what is still missing is budgetary management training. It is learnt that in many cases, respondents gain knowledge of their respective areas through hands-on training, guided by their senior peers and through self-learning.

With regard to performance efforts and initiatives to improve budgetary management, surprisingly, none of the respondents particularly at the managerial level mentioned the Public Finance Reforms which was established by the government in 2010 under the umbrella of Strategic Reform Initiatives, one of the fundamental flagships under the Economic Transformational Programme. This may transmit a clear signal to the government that there is a huge gap between policy making and policy implementation at the ministerial level.

3.4 Resistance to Change

In many organisations, initiatives or efforts to improve management deficiency implemented by the respective top management become futile caused not by the failure of these initiatives or efforts but due to people in these organisations resisting management changes. In light of this theme, the implementation of Outcome-Based Budgeting (OBB) has been taken as an example as one of the most recent efforts engaged by the government to improve budgetary management in Malaysia.

Respondents perceive OBB as a policy that has been rushed into implementation. The concept of OBB was first unveiled to public officials in 2011 and for the 2013 budget submission, all ministries were required to send their budget submission using the OBB structure. However, according to the original OBB timeframe issued by the Ministry of Finance, the implementation of OBB in 2013 should have been initiated by the selected pioneered ministry and department. Due to the fact that OBB has been implemented in a rush, the awareness program conducted was not comprehensive.

In the same light, budget preparation from the lowest to the highest entity within ministries and department is still performed on a manual basis and is not depicted in OBB. Therefore, it is almost impossible for budget managers at the ministry level to monitor budget preparation and performance closely.

Apart from OBB, a majority of respondents also welcomed other initiatives to enhance the public service delivery system by the government, for instance through the adoption of ISO 9000 and the implementation of KPIs. Despite this positive remark, respondents argued that the implementation of new initiatives is not carried out in a systematic manner. In the case of ISO 9000, the spirit of ISO is only felt by respondents during the auditing period. Also, respondents are dissatisfied that the KPIs measure elements that was not meant to be measured. On the other hand, respondents

particularly the support staff also admitted that in many cases they were not informed by the top management about the significance and the benefit of implementing specific management instruments like the ISO 9000 and KPIs. Without having such knowledge and information, they are bound to lack full commitment in implementing any changes directed by the lead agencies in budgetary reforms. For them, it is better to have the knowledge or background of any initiative that the lead agencies plan to introduce as it will help them rationalise the implementation of the initiatives better.

From this discussion, a number of important points are highlighted. First, public officials in many cases are not opposed to changes brought by the government leadership. In this case, they understand that regardless of any changes introduced by the government, the aim is to improve the public sector's service delivery system which thus requires their strong support. Second, poor implementation of many management instruments like the adoption of ISO 9000 and KPIs can be one of the reasons why the public sector performance including in the sphere of budgetary management is still lagging behind. Third, in many cases, the government employs a top-down approach to address many issues in its administration. However, from the findings, it reveals that the top-down approach is less effective especially in obtaining support from public officials, when detailed information is not cascaded down to the various levels in the hierarchy.

3.5 Senior Management Support

For budget managers, the support staff in their department is perceived as important agents in helping them especially during budget preparation. There are budget managers who limit their support staff's role to budget preparation only. However, there are also budget managers who allow their support staff to take part in the decision-making process and other strategic matters. Besides, they believe even with the presence of sophisticated or state-of-the-art management instruments, the role of support staff is still inevitable. In most cases, management instruments like ISO 9000 and KPIs only complement the tasks delivered by the support staff and can only facilitate the support staff to perform their duties better.

Nonetheless, there are budget managers who hold different views. First, they believe that management instruments are more crucial compared with the support staff. Under normal conditions, most jobs and duties carried out by the support staff only meet minimum requirements and it is difficult for them to achieve the highest level of quality without being supported by management instruments. Second, the option to utilise the support staff and management instruments is conditional because budget managers might work without engaging management instruments if they have highly experienced and competent support staff. However, in the absence of highly trained and competent support staff, the management instruments are inevitable. This is the reason why in many cases budget managers require management instruments for monitoring as well as being a check and balance platform in their departments.

Therefore, the key point here is that budget managers need to give their full commitment and support in addressing budgetary mismanagement issues. Budget managers morally recognise the importance of support staff's role in the delivery of various duties related to budgetary management, and physically, they welcome the

implementation of various management instruments like adoption of ISO 9000 and implementation of KPIs to improve the public sector service delivery system.

4. Discussion and Conclusion

Based on the above-mentioned findings, there are several important observations. First, it is good to learn that public officials have deep concerns about the prevalence of budgetary mismanagement in the public sector, and for them, it requires special attention from the lead agencies. A majority of the public officials are ready to give a helping hand to address budgetary mismanagement issue. Second, there has been a clear sign that the public sector's performance in budgetary management has recently improved.

Third, while many studies (Ehrenhard, Muntslag, & Wilderom, 2012; Norhayati & Nabihah, 2009; Pollitt & Boukaert, 2000; Rahaman, 2009) have proven that resistance to change is a prime reason behind an organisation's poor performance, it is not the case in the Malaysian public sector. Generally, Malaysian public officials recognise the importance of various efforts and initiatives introduced by the government to improve budgetary management particularly through induction of OBB, the new budgetary system, and the implementation of KPI and ISO 9000. Nevertheless, they argue that there is a string of weaknesses mainly in the implementation of these efforts and initiatives which require the government to embark on better implementation strategies. Furthermore, this implementation deficiency may provide the answer to the puzzle as to why budgetary mismanagement persistently prevails in the Malaysian public sector despite numerous efforts and initiatives engaged by the federal government. Besides, the study identifies the fact that there is a clear demarcation between policy making and policy implementation in the Malaysian public sector.

Last but not least, there is an obvious pattern that budgetary mismanagement is more likely to affect the large ministries and departments. There are two main reasons behind this scenario. Firstly, it is undeniable that a large ministry or department would demand a bigger budget allocation due to its structure and vast operation. However, in many cases, budgets approved to many public organisations seldom meet the needs of their clients (Walker & Boyne, 2009). This poses a very intense pressure on public organisations on the way they should manage their insufficient funds, and the Malaysian public sector is no different. Secondly, due to their size of structure and operation, a large ministry or department experiences difficulty in coordinating the operations of the agencies under them including in overseeing and monitoring their budgetary management. Thus, besides numerous implementation weaknesses in the budgetary system and management instruments, the fiscal pressure and lack of coordination within ministries and departments are the prime factors that contribute to the continuous prevalence of budgetary mismanagement in the public sector.

Moreover, the findings show that there are three main reasons why the Malaysian public sector is still engulfed in the incidence of budgetary mismanagement. These are: (i) fiscal pressure, (ii) weak implementation of performance initiatives and efforts, and (iii) lack of coordination. It is imperative that these are acknowledged in order to overcome budgetary mismanagement in the public sector.

It is thus suggested that policy makers particularly in the Ministry of Finance and the National Audit Department decide the platform on which auditing is to be carried out. Given that the auditing is performed based on compliance of rules and processes, which the study has proven to be less satisfying, there is a serious worry this may trigger public distrust towards the government. Furthermore, the Ministry of Finance may want to consider a different approach in allocation distribution that is more flexible. Currently, monies allocated to one agency are not transferable to another within the same ministry. Therefore, if there is an appropriate platform to identify the occurrence of such phenomena in advance, allocation from agencies that have a shortfall can be vired to another agency that requires the additional budget with a condition that both shortfall and overspending are *bona fide* cases. Financial Controllers of ministries and departments are responsible in overseeing and monitoring the operations of budgetary management. The role of the Financial Controller is fundamental in strengthening coordination among various agencies and in influencing implementation strategies of certain programs and activities. Without full commitment and support from the top management and in particular the Financial Controllers, it is unlikely that performance programs will meet their desired objectives. Finally, although it is undeniable that the government has introduced a series of performance or reform programs to improve performance of budgetary management in the public sector, the role of support staff in implementing the policies should not be brushed aside, and in some cases a bottom-up approach may also be engaged to ensure successful implementation.

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