

Initiatives Towards Constructing a Definition of a Commercial Public Sector Entity in Malaysia

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<https://doi.org/10.58458/ipnj.v13.02.04.0095>

Received: 26 May 2023

Reviewed: 19 July 2023

Accepted: 12 October 2023

Published: 15 December 2023

Abstract

Purpose: This study explores the possibility of applying the definition of “government business entity” (GBE) to construct the definition of “commercial public sector entity” (CPSE) based on the characteristics of GBE. Comparison was made between the characteristics of GBE in nine countries, namely the United Kingdom, the United States, Canada, Australia, South Africa, New Zealand, Indonesia, Thailand, and Malaysia. This is followed by identification of the issues related to the definitions and characteristics of GBE and the challenges faced by the Accountant General's Department of Malaysia (AGD) in developing the definition of CPSE.

Design/ Methodology/ Approach: This study utilised the content analysis of the documents, such as accounting standards and articles related to commercial public entities. A qualitative approach was employed by conducting interviews with public sector accountants who are directly involved with the accounting standard's implementation in AGD.

Findings: The results recorded similar and different characteristics constituting the definitions of GBE adopted in nine countries. In the application of the GBE definition to construct the definition of CPSE, four main issues were identified: diversity of definition, spectrum of entities, government funding, and rules and regulations of financial reporting. This was

This article is part of a research on Constructing a Common Definition for Commercial Public Sector Entities in Malaysia, supported by the Accountant General's Department of Malaysia through *Geran Penyelidikan Perakaunan dan Kewangan Sektor Awam Tahun 2023* (JANM.IPNC PD.100-3/3/2 Jld.6 (70)).

followed by several other challenges, including the non-reliance solely on the GBE definition, substance over form, purpose of establishment, and jurisdiction of the federal government and existing acts.

Research Limitations/ Implications: It was implied in this study that GBE's definition should be revisited to resolve specific issues before constructing the definition of CPSE.

Practical Implications: It was indicated from the results of CPSE in a Malaysian context that may be developed after considering the issues that may arise due to accounting and financial reporting practises.

Originality/ Value: This study is the first attempt towards constructing a definition for CPSE.

Keywords: GBE, CPSE, definition, spectrum of entity, government funding, rules and regulation of financial reporting, Malaysia.

1.0 Introduction

Malaysia has witnessed a number of public-sector changes. Despite the significant discrepancies between rhetoric and reality particularly in the areas of implementation, the effects of the changes have been insignificant (McCourt & Foon, 2007; Lim, 2009). The level of concern and dissatisfaction expressed regarding service quality and the inefficiency and waste within the government has indicated that these advancements do not fulfil the rising needs and expectations (Agus, Barker, & Kandampully, 2007; Siddique, 2013; Siddique, Xavier, & Mohamed, 2017) of the Malaysian citizens. As a result, numerous appeals were made to meet these needs. To overcome these issues, adapting to new modes of service delivery with better adaptability to the technology, norms, and requirements of the present is crucial (Economic Planning Unit, 2021). These new delivery and service criteria equip the government with an opportunity for transformation, allowing it to be more cost-effective and able to meet the needs and aspirations of the people.

One of the Government Transformation Programme's (GTP) transformations is the development of government agencies into a "more commercial" version (Jabatan Perdana Menteri, 2010), which is in line with the status of governments around the world. This condition has led to the establishment of CPSE as one of the primary agents of change (Xavier, Siddique, & Mohamed, 2016). Considering the numerous possibilities for the production of superior results, a CPSE is recommended. However, the term "commercial" used by public-sector organisations is patently equivocal. In the public sector, this term was defined by Creswell (2020) as a service or product, analysing competition to determine if there is a market, and establishing the operating environment that provides the greatest value in terms of the outcome for the amount of money invested. This definition applies to developing nations such as Malaysia, which has become a more progressive nation as a result of the government's active involvement in business activities (Azhar, 2014), contributing to the emergence of the concept of GBE.

The International Public Sector Accounting Standards Board (IPSASB) has provided the definition of a GBE (IFAC, 2014). However, the IPSASB's definitions were excessively broad, leading to the challenges in determining whether a government department or agency is qualified as a GBE or whether a subsidiary falls under the definition of a GBE. As a consequence, confusion took place in the setting of accounting standards for the entire government agency due to the use of inconsistent accounting standards. This confusion became more critical when GBE and its definition were withdrawn from IPSAS by the IPSASB and replaced GBE with CPSE (IPSASB, 2016). However, the IPSASB placed the responsibility of developing the definition of CPSE on the respective countries without making a definition of CPSE. In this case, each country was granted the authority to determine the application of accounting standards by CPSEs. This condition prompted each country to develop a new definition for CPSE and make an effort to provide more comprehensive definitions for the new term. In Malaysia, this action serves as the foundation of AGD's efforts to develop a CPSE definition in Malaysia.

In line with Malaysian Public Sector Accounting Standards (MPSAS), what is currently accessible and known as CPSE is most likely equivalent to the definition of a GBE. However, the issues surrounding GBE may impact the application of the GBE definition to CPSE. Therefore, these issues were addressed in this study by investigating the definitions of GBE in selected countries. Furthermore, identifying the issues surrounding the definitions of a CPSE is most likely equivalent to the definition of a GBE. Subsequently, the challenges in developing the definition of CPSE were identified. The results of this study would be able to assist AGD in the development of an acceptable definition for CPSEs in Malaysia and the development of a framework that can provide a clear classification of a public sector and a CPSE. The remaining sections of this article present a literature review relevant to this study, followed by research methodology, results of this study, and this study conclusion.

2.0 Literature Review

The New Public Management (NPM), which proposes substantial changes to the structural and operational characteristics of public bureaucracies, is believed to have initiated the concept of commercialisation in the public sector (Siddique, 2014). The NPM seeks to align public sector organisations with corporate management concepts and practises and to transform inefficient and cash-strapped businesses. This outcome is achieved by granting the private sector a more important role in the delivery of government operations and services (Savoie, 2008). Having theoretical roots in public choice theory and managerialism, the NPM is predicated on the fundamental premise that public sector bureaucracy is inherently flawed and can only be addressed through solutions proposed by the private sector (Hughes, 2012). The application of private sector ideals and management methods in the public sector, which includes the delivery of public services through market mechanisms and competitive procedures, is essentially a response to the inadequacy of public bureaucracy (Hughes, 2012). It aims to provide public organisations and their employees with a remarkably business- or consumer-oriented perspective of the market (Diefenbach, 2009).

Since the 1980s, the NPM has been connected with public sector reform and modernisation initiatives in the Organisation for Economic Cooperation and Development (OECD) and developing countries (Mongkol, 2011; Siddique, 2014). After gaining acceptance from Western liberal democracies, the NPM has been a driving force behind the various changes and

beneficial developments in the public sector and global public sector, respectively (Islam, 2015). It also seeks to transform inefficient and increasingly cash-strapped public-sector institutions by building a closer alignment with business ideas and practises and providing the private sector with a more important role in the delivery of governmental tasks and services (Hope, 2001). This outcome can be accomplished through a better association of the public-sector groups with corporate management concepts and practices. Overall, Malaysia commonly leads the efforts of developing countries to enhance public services.

While reform has been an integral part of the Malaysian public sector, it acquired a new prominence through the ratification of the GTP in 2008. One of the reformation initiatives includes commercialising the public sector. Developed into a signature initiative of the Malaysian government (Siddique, 2014), this initiative is considered a model for public sector reform, considering that it is more efficiently credited with the integration of public service delivery and government accountability (Mahbob et al., 2013). GTP is a proposition to reorganise government operations for the improvement in the efficacy and effectiveness of the delivery of public services (Siddique, 2014). Furthermore, GTP is presented as a method for fostering a government structure that is more performance-oriented, accountable, and responsive. It comprises a number of initiatives aiming to make significant and swift changes to the delivery of certain services. Notably, the GTP is a diagnostic and problem-solving approach to the reform of the public sector (Siddique, 2013). Subsequently, the GTP was introduced in 2009 by the former Prime Minister, Najib Tun Razak, which drew significant attention as a paradigm shift for public sector reform.

Commercialism in the public sector, which includes the GBEs, falls under the entities established by the government to conduct commercial activities on its behalf. These entities are also hybrid, possessing the features of a private company and a public organisation. Currently, IPSAS and MPSAS define GBEs as government organisations with separate entities and core activities involving the sale of items to non-government organisations and individuals. Meanwhile, government-owned businesses are entities established by the government to conduct commercial activities on its behalf. GBEs are self-governing organisations that possess the financial and operational capacity to sell commodities to non-governmental groups and individuals. Overall, these sales allow the government to earn revenue and maintain operations. Additionally, several sectors including the main rail operator, national flag carrier, heart surgery centre, public transport operator, and federal land organisation are examples of GBEs, given that the services they offer are essential in this country.

Based on the literature review, diverse definitions of GBE are present across countries based on characteristics of the GBE. To illustrate, the Australian Government's Department of Finance made a comparison between the government's relationship with its GBE and its relationship with a holding company and its subsidiaries (Australian Government Department of Finance, 2013). The characteristics are as follows:

- i. Strong interest in the performance and financial returns of the GBE.
- ii. Reporting and accountability arrangements that facilitate active oversight by the shareholders.

- iii. Action by the shareholder in relation to the strategic direction of its GBEs, which prefers a direction different from the proposed direction.
- iv. Management autonomy that is balanced with regular reporting of performance to shareholders.
- v. Boards that are accountable to shareholders for GBE performance and shareholders accountable to Parliament and the public.

The GBEs are defined by the IPSASB as an entity that possesses the following qualities (IFAC, 2014, p. 7):

- i. An entity with the power to contract in its name.
- ii. Assigns the financial and operational authority to carry on a business.
- iii. Sells goods and services to other entities at a profit or full cost recovery in the normal course of its business.
- iv. Is not reliant on continuing government funding as an ongoing concern (besides the purchases of outputs at arm's length).
- v. Is controlled by a public sector entity.

The IPSASB has explored two major approaches in its policy on public-sector enterprises. In this case, the accounting rules for GBEs were developed. This modification for MPSAS was aligned with IPSAS, which revised IPSAS 1 in April 2016. It was also aligned with IPSASB that proposed the replacement of GBE with CPSE (IPSASB, 2016; IPSASB, 2022). The first approach in developing the accounting rules for a GBE, which defines the characteristics of the public sector institutions for which IPSASs are designed, would not be possible through this technique. Two options are present in this approach: (1a) the use of IPSASB's existing and emerging terminology and; (1b) the use of Government Finance Statistics (GFS) reporting requirements and explanatory advice. Specifically, the former describes the characteristics of public sector enterprises solely through the existing and emerging IPSASB material, while option 1b involves the incorporation of specific words and explanations from the GFS reporting rules into the IPSASB literature.

The second approach in developing the accounting rules for a GBE, involves the modification of the current definition of a GBE in IPSAS 1 to alleviate application concerns. This outcome can be accomplished in two methods: (2a) clarification of the current definition of a GBE, and/ or; (2b) limitations imposed on the current definition of a GBE. Options 2a and 2b are not required to be mutually exclusive. Option 2a may be used in combination with Option 2b to clarify and limit the current definition of a GBE (IFAC, 2014). However, several challenges are raised by both methods, prompting the IPSASB to cease the discussion on GBE and allow the countries across the globe to hold debate, establish the meaning of GBE based on their respective views, and subsequently define their respective term, CPSE.

The aforementioned characteristics were based on the old definition of GBE, although it was subsequently replaced by IPSAS. Thus, IPSAS solely used the term “public sector entities.” Under IPSAS, a public sector entity is described as an entity that meets the following criteria:

- i. Responsible for the delivery of services to benefit the public and/ or redistribute income and wealth.
- ii. Directly or indirectly finances its activities primarily through taxes and/ or transfers from other levels of government, social contributions, debt, or fees.
- iii. Does not have the primary objective of making profits.

In conclusion, a review of the literature demonstrates several definitions of GBE describing its characteristics across countries. These characteristics may be used to define CPSE, considering that GBE is a government entity that delivers commercial services. Nevertheless, further research should be conducted on whether all of these characteristics can be used or reused in a CPSE or if further enhancements are required.

3.0 Research Methodology

3.1 Sample and Participants

This study compared between the definitions of a GBE used by standard-setters in nine different countries, namely the United Kingdom (UK) (IFAC, 2014), the United States (US) (Kenton, 2020), Canada (CPA British Columbia, 2016), Australia (Australian Government, Department of Finance, 2013), South Africa (Accountancy South Africa, 2014), New Zealand (Parliamentary Counsel Office New Zealand, 2018), Indonesia (Situmorang & Putri, 2023), Thailand (Office of the Public Development Commission, 1994), and Malaysia (Accounting Sense, 2021). The selection of these countries was attributed to their direct relevance to this study. These countries were also frequently used as references in earlier studies on GBE. Specifically, Malaysia was selected due to the improvement of GBE into CPSE in line with the improvements in MPSASs 2023 (AGD, 2023).

This study also interviewed three accountants from AGD to gain an understanding of the issues surrounding GBE and the challenges in defining CPSE. To be specific, three accountants from the Accrual Accounting Implementation Team (PPPA) and Accounting Development and Management Division (BPPP) were selected due to their direct involvement in the setting of accounting policies. Thus, they possessed vast knowledge and experience in this area. Following that, three accountants were labelled as Accountant A, Accountant B, and Accountant C.

3.2 Research Instrument and Data Collection

Two methods were employed to accomplish its objectives. This study started with a content analysis of articles and working papers examining commercial public entities in various nations. It was determined whether the articles presented a definition of commercial public entities. This was followed by semi-structured interviews with three representatives from AGD to gain an understanding of the scenario of GBE and the importance of CPSE. This study also examined the standards pertaining to a GBE in nine nations to compile a protocol for defining the

common definition of a CPSE. Moreover, through the use of various database search programmes such as Google Scholar, EBSCOHOST, and the websites of institutions related to this study, a list of all available articles on GBE from various research literature and countries' references are illustrated in Table 1.

Table 1: Document for Content Analysis

No.	Document
1.	Accountant General's Department of Malaysia (2023). Improvements to MPSASs 2023.
2.	Accountant General's Department of Malaysia (2013). MPSAS 1: Presentation of Financial Statements.
3.	Accountant General's Department of Malaysia (2013). MPSAS 24: Presentation of Budget Information in Financial Statements.
4.	United States Government Accountability Office (1995). Government Corporations: Profiles of Existing Government Corporations.
5.	International Federation of Accountants (IFAC). (2014). The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities, Consultation Paper.
6.	International Public Sector Accounting Standards Board (IPSASB). (2016). Applicability of IPSASs.
7.	Accounting Sense (2021), Accounting 101: Financial Reporting Frameworks in Malaysia.
8.	Accountancy South Africa (2014), Public sector: Government Business Enterprises.
9.	CPA British Columbia (2016), Government Business Enterprises.
10.	Parliamentary Counsel Office New Zealand (2018), State Owned Enterprises Act 1986.
11.	Australian Government, Department of Finance (2013), Government Business Enterprises.
12.	Accountancy South Africa (2014), Public Sector: Government Business Enterprises.
13.	Situmorang and Putri (2023), Entities in Indonesia: A General Overview of Business Entities in Indonesia: Vol. 1: Legal Business Entities.

A qualitative approach involving semi-structured interviews was employed in this study to gain understanding of the issues surrounding GBE and CPSE. Accordingly, this study collected participants' subjective views and information on the research topic. After the data collection was completed, the data was recorded and transcribed. Following that, the transcription results were organised and categorised based on the main themes and coded according to Miles, Huberman, and Saldana (2014). The category system gained from the classification process was used to structure and direct the information data evaluation procedure.

The application of ATLAS.ti and Excel used for data analysis in the code manager is presented in Figure 1. Each opinion statement from the respondents was prepared in Microsoft Word and transmitted to ATLAS.ti for analysis based on codes. The coding procedure was based on the identified characteristics of a GBE. Subsequently, four major themes were derived from the coding trend.

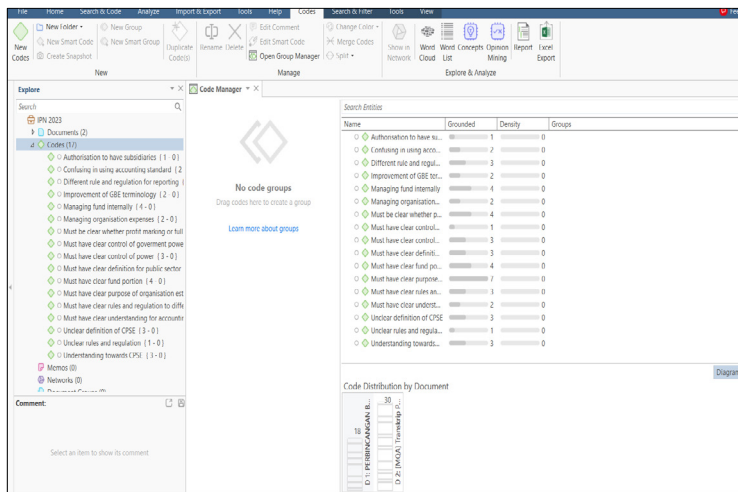


Figure 1: Example of ATLAS.ti coding process

4.0 Discussion of Findings

4.1 Comparative Content Analysis for GBE

This study aims to evaluate the definitions of GBE to determine the characteristics suitable to the definition of CPSE. In this case, the results could be applied to develop a standardised definition of CPSE in Malaysia. The evaluation was conducted on the articles and working papers pertaining to GBEs, including the working papers related to GBE to determine their applicability to this study. The study on the publications indicated the importance of recognising that most of the articles and working papers used the term GBE as a representation of a commercial organisation in the public sector. In some countries, the GBE is known as a state-owned enterprise (SOE).

A checklist was prepared to identify all characteristics presented by the standard setters in nine countries, namely, the UK, US, Canada, Australia, New Zealand, South Africa, Indonesia, Thailand, and Malaysia. Based on Table 2 that illustrates the definitions of GBE based on the content analysis, it was found that Malaysia adopted the definition of GBE provided by IPSAS. This adoption was attributed to the agreement between the Government of Malaysia and IFAC on February 12, 2013. Furthermore, a comparative analysis was conducted to ascertain the characteristics shared by the nine nations. The results of the investigation are presented in Table 2. One of the defining characteristics of a GBE in the UK, Australia, Indonesia, Thailand, and Malaysia was that it should be a government-controlled entity. Although New Zealand, South Africa, Canada, and the US did not explicitly state that a GBE must be under government control, Table 3 indicates that the entity must be associated with the government. Therefore, it was suggested that a CPSE should also be an entity associated with the government.

As seen in Table 3, all countries except Thailand highlighted that a GBE has the authority to run its business and contract or generate profit related to selling goods and services to external parties besides the government. Thus, it is indicated that GBE often sells goods and

services to individuals and organisations outside of the government that report the entity as its principal activity. In this case, the GBE is able to sustain its performance and address all its liabilities. Furthermore, the companies primarily aim to partake in commercial activities within the private sector. As a result, GBEs act as public entities involved in private sector activities to promote the public's continuous provision of essential services. For instance, the government may take control of essential services to prevent negative consequences that may arise if the control is not applied.

Table 2: Summary of Characteristics of a GBE

Country	Characteristics	Reference
United Kingdom	<ul style="list-style-type: none"> • An entity with the power to contract in its own name • Has been assigned the financial and operational authority to continue a business • Sells goods and services to other entities at a profit or full cost recovery in the normal course of business • Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length) • Controlled by a public sector entity 	IFAC (2014)
United States	<ul style="list-style-type: none"> • Predominantly of a business nature • Produces revenue and is potentially self-sustaining • Involves many business-type transactions with the public • Requires higher flexibility than the customary type of appropriations budget ordinarily permits • There is no uniform definition nor standardised criteria for establishing Government Owned Corporations 	Kenton (2020)
Canada	<ul style="list-style-type: none"> • A separate entity with the power to contract in its own name and can sue and be sued • A separate entity that controls the financial and operational authority to run a business • Sells goods and services to individuals and organisations outside of the government reporting entity as its principal activity • In the normal course of its operations, it is able to maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity 	CPA British Columbia (2016)
Australia	<ul style="list-style-type: none"> • Its primary purpose is in commercial activities in the private sector, e.g., charging of goods and services (not necessarily to the final customers) • Is controlled by the government • Has a separate legal existence from the government • Must be an actual or potential competitor either in the private or public sector • Managers of the activity have a degree of independence in relation to the production or supply of the good or service and the price designated for it • The business is significant 	Australian Government, Department of Finance (2013)
New Zealand	<ul style="list-style-type: none"> • An entity set up to perform commercial functions • An entity that generates profit and efficient as comparable businesses • Subject to State Owned Enterprises Act 1986 and Companies Act 1993 	Parliamentary Counsel Office New Zealand (2018)

Country	Characteristics	Reference
South Africa	<ul style="list-style-type: none"> • Is an entity that generates profit and is not dependent on government funding for its operations • Customers are not limited to other public sector entities • Users of GBE financial statements are not similar to those of other public sector entities • No complexities arise in the consolidation of GBEs at national and provincial levels, including the skill and capacity required to deal with different reporting frameworks 	Accountancy South Africa (2014)
Indonesia	<ul style="list-style-type: none"> • A business entity where the Indonesian government is partly or wholly involved in conducting commercial activities • Controlled by government 	Controlled by government
Thailand	<ul style="list-style-type: none"> • Exists as a purpose-established organisation • Controlled by government • Limited companies 	Office of the Public Development Commission (2008)
Malaysia	<ul style="list-style-type: none"> • Is an entity with the power to contract in its own name has been assigned the financial and operational authority to run a business • Sells goods and services to other entities at a profit or full cost recovery in the normal course of business • Is not reliant on continuing government funding as a going concern (other than purchases of outputs at arm's length) • Is controlled by a public sector entity 	Accounting Sense (2021) AGD (2023)

Table 3: Comparative Analysis of Characteristics of a GBE

Characteristics	UK	US	Canada	Australia	New Zealand	South Africa	Indonesia	Thailand	Malaysia
Government-controlled	√			√			√	√	√
Having the authority to carry on own business/ contract/generate profit	√	√	√	√	√	√	√		√
Has been assigned the financial and operational authority	√		√						√
Self-funded and not dependent on government fund	√	√	√			√			√
Subject to specific laws					√				
A separate legal entity from government/ limited companies				√				√	
Sell goods and services not only to the government	√		√	√		√			√

Another common attribute among most of the countries is that the GBEs are self-funded, indicating their less dependency on government funding. In fact, it is known that the GBE in the US should have a separate legal existence from the government. On the other hand, the UK, Canada, and Malaysia demonstrate GBE as the GBE that has been assigned financial and operating authority. In this case, the GBE is also controlled by the government despite having the authority to manage its financial and operating activities independently.

4.2 Issues in Constructing a Definition of CPSE

To develop a further understanding in construction the definition of CPSE, interviews were conducted with three accountants in AGD. As a result, it was found that the issues to be considered could be classified into four main categories: diversity of definition, spectrum of entities, government funding, and rules and regulations of financial reporting.

4.2.1 Diversity of Definition

Based on a content analysis, the IPSASB's feedback exhibited diversity in the application of the GBE's definition in several jurisdictions. This study finds a wide variety of entities are currently referred to as GBEs (or equivalents), some of which do not meet all of the criteria in the IPSASB's definitions. Furthermore, the relevant issues were highlighted based on their definition in IPSAS 1 e.g., the definition of a GBE requires the entity to have the authority to enter into contracts in its respective name. While this requirement aims to demonstrate an entity's autonomy, meeting this criterion is challenging in some jurisdictions where a government minister is legally required to sign all contracts with public sector entities.

The definition of GBEs requires that the entity has been assigned the financial and operational authority to run a business. While all GBEs have some financial and operating authority, variations are present in autonomy and governance based on the arrangements in each jurisdiction. Others may have more autonomy while continuously operating under strict financial and performance restrictions that are imposed upon and regularly reviewed by the government. In situations where a government takes over a business during a financial difficulty, it is possible for the government to set objectives for the entity and establish reporting lines. Other GBEs, such as utilities, may be subject to the decisions of regulators appointed by the government to independently consider issues, such as service standards and pricing. Therefore, the public sector often determines its targeted outcomes for each entity through legislation or regulations with a set of governance arrangements distinguished from those in the private sector. Provided the IPSASB maintains the definition of GBEs, it may be worthwhile to develop guidance on the financial and operational authority imposed upon to run a business.

Addressing numerous issues associated with GBE, the IPSASB made the decision to end any future debate on this topic and remove the definition of GBE. As a result, the IPSASB provided the countries with the authority to determine the factors constituting a GBE and its definition. Subsequently, countries presented a new terminology for GBE and attempted to offer more detailed descriptions of the newly introduced word. However, this action caused an issue specifically after the withdrawal of the use of the GBE definition by IPSAS, the question defining a CPSE, and the methods of defining CPSE remained unfilled and unresolved. This condition could result in a lack of uniformity in the application of accounting standards across agencies in the Malaysian government. Accordingly, Accountant A elaborated:

“We want to develop a definition of CPSE, replacing the definition of GBE, which was withdrawn. This is because many government agencies claim that they are not 100 per cent public sector and that the application of MPSAS to them is not appropriate due to their establishment under the Companies Act. Yes. We agreed and did not challenge the establishment under the Act and *Suruhanjaya Syarikat Malaysia* (SSM). However, we also need to consider other things to classify a government, whether it is under the CPSE or the public sector. We want to make it clear through the definition of CPSE. With that, it is easy for us to explain and decide the appropriate accounting standards for a government agency, whether it is necessary to use MPSAS or not.” [translated]

Nevertheless, an understanding of the history behind the importance of constructing the CPSE definition is crucial. In this case, Accountant B presented the following statement:

“Initially, the IPSASB defined GBE in IPSAS 1 and excluded the application of IPSAS accounting standards to those entities. There are five characteristics of GBE. If the entities meet the definition of GBE, then they do not need to use IPSAS, even though they are actually public sector entities or subsidiaries of public sector entities. Instead, the entity will use standards other than IPSAS, which is IFRS in the global context or, in the context of Malaysia, MFRS or MPERS. We follow this approach for Malaysian GBE. Then, the issue arose when we updated MPSAS in December last year. It was updated based on the updated IPSAS standards, where IPSASB has improved the applicability of IPSAS standards. IPSAS has changed the approach where the definition of GBE was withdrawn and provided a new definition for the public sector. It means that if the entities meet the definition of “public sector, then they need to use IPSAS, or in our case, MPSAS. It changes from a negative approach (to exclude the applicability of IPSAS) to a positive approach. Instead of identifying entities that do not need to apply IPSAS (GBE), identify entities that do need to apply IPSAS (public sector entities). However, this approach has caused a new issue to arise: what about entities that are not included or do not meet the definition of the public sector? What accounting standards are suitable for them? To overcome this issue, IPSASB proposed a new terminology for entities, which is CPSE, and left it to the respective countries to define CPSE. This CPSE should replace GBE and does not need to use IPSAS or MPSAS. However, as mentioned, IPSASB empowers respective jurisdictions to define what CPSE is, and here we are, needing to define CPSE for the Malaysian context.” [translated]

Considering the diversity of GBE definitions, this study finds that the definitions of a GBE is also expected to influence the development of the definition of CPSE. Therefore, it is believed that this study may be able to assist AGD in identifying and evaluating a suitable definition for CPSE, which subsequently allows AGD to impose the adoption of MPSAS. As indicated in the following statement by Accountant A, the definition of CPSE is crucial:

“We really want a clear definition of a CPSE for future use because many government agencies are asking for an exemption from using MPSAS.

Without the definition, it is quite difficult for us to grant an exemption because, as a statutory body, they need to follow various accounting rules and systems. For example, a statutory body needs to use SAGA¹ in recording financial data, and one of SAGA's requirements is to use MPSAS.” [translated]

Offering his thoughts and perspectives, Accountant B stated that the new MPSAS will apply to the definition of the factors constituting a public sector firm. On the other hand, the Malaysian Accounting Standard Board (MASB) and the Malaysian Institute of Accountants (MIA) have proven that there is no established definition of the private sector. Accordingly, a recent study demonstrated that besides the governmental and private sectors, a “third sector” is also present (Perai, 2021). This sector is commonly known as civil society, the social economy, or the voluntary, non-profit, and philanthropic sectors (Salamon, Sokolowski, & Haddock, 2017). It consists of organisations that do not necessarily fall under the public or private sectors. Accountant B added the following statements:

“I remember reading an article by a university researcher who identified a third sector of business entities in addition to the public and private sectors. So, according to the article, we should have three sectors, namely the public sector, the private sector, and the third sector. At the same time, we need a uniform definition for these three sectors in all accounting standards: MPSAS, MFRS, and MPERS, and it needs to be agreed upon with MASB and MIA. With a clear definition in the respective accounting standard, confusion can be avoided, and the application of accounting standards for each sector will be easier and clearer.” [translated].

It was found that in adopting some of the characteristics of a GBE into CPSE, it is important for AGD to improve the GBE terminology to ease the application of the accounting standards to the agencies. Accountant B stated his opinion:

“Actually, this issue arose when we update the MPSAS. We update the MPSAS, or we publish this one document, an improvement to MPSAS 2023. We published it in December of last year. In this document, we update based on IPSAS. IPSAS has improved and has the applicability of IPSAS. If an entity excludes the application of IPSAS to GBE, as defined in IPSAS 1 or MPSAS 1, then the entity is correct since the entity has five characteristics of GBE. So, if an entity meets the definition of GBE, then the entity does not need to use MPSAS, even if it is in the public sector. Okay, but instead the entity uses a standard other than IPSAS, which can be IFRS in the global context or, in the context of Malaysia, MFRS or MPERS. When we update this preface, IPSAS has changed the approach instead of excluding the use of MPSAS to GBE; the entity changes the approach in positive ways; the entity defines instead what

¹SAGA refers to the Standard Accounting System for Government Agencies. SAGA is either a customised accounting and financial application system or commercial off-the-shelf (COTS), as well as a support system related to financial data integrated with it. The application system needs to comply with the accounting and financial systems design approved by the AGD and SAGA Compliance Criteria (<https://www.anm.gov.my/en/faqs/faq-saga>).

the public sector is. So, if the entity meets the definition of public sector, then it uses IPSAS or MPSAS. Instead of using a negative excluding approach, the entity uses a positive including approach, including the public sector.”

Accountant A also presented her opinion, which is as follows:

“IPSAS withdraws the definition of GBE, introduces the concept of CPSE without a detailed explanation, and leaves the discretion of the jurisdiction. This creates a problem. IPSAS only defines public-sector entities.” [translated]

Provided the definition of CPSE also considers the existing legislation, determining the standards that need to be used would be an easier process, as indicated by Accountant B’s statement as follows:

“Actually, we encourage the public sector to utilise MPSAS as they have a specific reporting framework, such as SAGA, for the preparation of financial statements. And, we anticipate that the new definition of CPSE will incorporate the existing reporting framework so that we can clearly distinguish the legal and reporting framework relevance of each government agency.” [translated]

It can be concluded that in terms of the numerous issues associated with GBE, the IPSASB indicates that further discussion on this topic should be avoided, while the concept of GBE should be overlooked. Therefore, the IPSASB grants countries the authority to determine the factors constituting a GBE and how it should be defined. Following that, the term “CPSE” was coined, making it necessary for additional research to arrive at a more precise definition of CPSE. Moreover, the AGD should have a more precise definition of CPSE in line with the findings in this study. The CPSE definition aims to serve as a definitive guide for the selection and establishment of accounting standards to be employed by an organisation. A reasonable definition of CPSE would assist in determining the applicable accounting standards. This case would apply to MPSAS if it is a public sector entity and MFRS if it is a CPSE.

4.2.2 Spectrum of Entity

Based on the content analysis, it was found that IPSASB was classified into three types of government business entities, offering a certain extent of understanding of the types of government business entities and the concept of commercial in public entities. The understanding of these three types of government business could be perceived on a spectrum. At one end of the spectrum, the entities that are clearly profit-oriented trading enterprises are present, such as the utilities that aim to make a commercial return and pay regular dividends to shareholders. These entities would fit the current definition of a GBE and possess characteristics similar to those of profit-oriented entities for which the IASB develops and maintains IFRS. Meanwhile, controlled entities that provide public services are present at the other end of the spectrum to achieve outcomes that enhance or maintain the well-being of citizens. These entities are completely dependent on government funding. These entities are not profit-oriented nor seeking to make a commercial return or pay dividends. Moreover, they would not meet the current definition of a GBE due to their reliance on continuing government funding as a going concern. Given that it is not possible for them to meet the criterion of a full cost recovery objective, these entities could not be classified as GBE. However, they are

present in the middle of the spectrum, which may lead to difficulty in categorising them as either profit-driven or service-driven. Additionally, these entities may fall under any part of the spectrum. Many types of controlled entities are more challenging to classify as either profit-oriented or service-oriented.

The definition of GBEs requires the entity to sell goods and services to other entities at a profit or full cost recovery in the normal course of business. Having a full cost recovery objective is for reflecting a commercial focus. In other jurisdictions, public sector entities may not have the authority to enter contracts, considering that they do not represent the definition of a GBE despite their overtly commercial aims and consistent record of meeting profit targets. A question has been raised on whether an entity that meets the definition of a GBE to be excluded from classification as a GBE due to a legal requirement for all contracts to be signed by a government minister. While other organisations contribute a sizeable income by selling their services at competitive rates (e.g., conducting research), they are unable to fully recoup their investment expenditures annually or in several years. Besides, although several organisations may aim to recover all of their costs, they may also receive financial aid from the government to compensate for any gaps. For example, there are businesses that offer products and services without depending on government financing; nevertheless, they have a financial goal of complete cost recovery rather than profit generation.

Other companies make significant income by delivering market-priced services such as research; however, they lack the fully recovering expenditures annually or in certain years. While some organisations may have a complete cost recovery goal, they may acquire governmental funds to offset any deficit. Furthermore, several organisations earn profit that may be granted as a dividend or maintained for reinvestment, while some other companies obtain government support from time to time upon experiencing annual loss or requiring more funds for investment. In general, despite being profit-oriented, the entities only have other public sector entities as their customers, which indicates that the scope of generating revenue is confined to public entities. In line with this, Accountant B presented an opinion:

“In developing a definition of CPSE, we must also consider two distinct categories of companies. The first is the company established under the Government Investment Companies Division (GIC). This form of company, such as Syarikat Prasarana, was incorporated under the Companies Act but did not make a profit. Due to the government's obligation to provide public transport, the company continues to operate even though it does not make a profit. Secondly, a company limited by guarantee (CLBG) is also incorporated under the Companies Act, some of which are regulated by the Securities Commission. Their businesses are both for-profit and not-for-profit. Legally, GIC and CLBG companies are required to use the MASB standard as they are incorporated under the Companies Act, but in substance, they are not-for-profit organisations or must continue to operate even though they do not make a profit. So, this perspective is also an essential element to consider in the process of developing the definition of CPSE.” [translated]

Accountant C also expressed her opinion, which is as follows:

“The public sector definition has now taken the place of the previous definition for GBE. Government entities that do not meet the public sector definition can be classified as CPSEs. The problem now is that we do not have a definition for CPSE, which makes the application of accounting standards more open and subjective. As mentioned earlier, there are entities incorporated under the SSM and Bank Negara legislation (which must apply MASB accounting standards), but the nature and purpose of their incorporation are more geared towards the public sector (which must apply MPSAS).” [translated]

4.2.3 Government Funding

Based on the review of the literature, it is generally known that all entities in the public sector are dependent on government funding to operate their businesses. For this reason, there is no necessity in separating the agencies in the public sector. This condition has led to numerous arguments that GBEs should apply the same reporting framework as other public sector entities. However, IPSASB emphasises that entities that are clearly profit-oriented trading enterprises, such as enterprises that aim to make a commercial return and pay out regular dividends to shareholders, should be considered commercial public entities. Several questions have been raised during the interviews: is it possible for the entity to generate profit and pay dividends while still receiving government funding? To what extent do we allow the amount of government spending to determine whether the entity can be regarded as a commercial public entity?

It is required in the definition of GBEs that the entity is not reliant on “continuing government funding” as an ongoing concern that excludes the purchases of outputs at arm’s length. The IPSASB has identified a considerable variation in the interpretation of “continuing government funding”, which indicates an inconsistent application of this criterion across jurisdictions. In several jurisdictions, governments provide concessionary loans to entities and/ or guarantees to resource providers, allowing a controlled entity to borrow funds for investment or obtain working capital. Other forms of government funding include loans or equity injections for initial funding and periodic loans for the purchase of assets and/ or to increase the entity’s scale of activity. Entities may be reliant on continuous funding of this nature without receiving direct operational subsidies. However, based on the content analysis, many of the agencies in the federal government that generate revenue rely on government funding to operate their businesses. As a result, there are challenges in identifying whether these agencies can be classified as GBE. This situation necessitates the development of a threshold between revenue generation and government funding.

Notably, one criterion that may require consideration is substance over form, leading to the necessity of highlighting the substance of the establishment rather than its legal form. For example, while a company is established under the Companies Act 2016, it is not targeted for profit (substance). Therefore, it is necessary to identify the specific accounting standards to be used, as per Accountant B’s statement:

“I think we must also consider the substance of the establishment of an entity. If it is a social obligation, I do not think the MASB standards are the right ones, even if it is a private company.” [translated]

4.2.4 Rules and Regulations for Financial Reporting

One of the main issues in the importance of properly defining GBEs is the importance of identifying the appropriate reporting frameworks for GBEs. The term “GBE” has been defined in IPSAS 1, Presentation of Financial Statements. The scope section of each IPSAS specifically excludes GBEs while including a reference to the Preface to International Public Sector Accounting Standards (Preface), which states that GBEs apply the International Financial Reporting Standards (IFRSs) that have been issued by the International Accounting Standards Board (IASB). Currently, all IPSASs include the statement that “this standard applies to all public sector entities other than GBEs”. Each IPSAS also highlights that “The Preface to International Public Sector Accounting Standards issued by the IPSASB explains that GBEs apply IFRSs issued by the IASB”. The studies demonstrated a wide range of entities described as GBEs. It is clear that some of these entities do not fulfil the IPSASB definition of a GBE. In other cases, different interpretations are expressed regarding the components of the GBE definition. In South Africa, concerns are shown regarding the complexities that arise in the consolidation of GBEs at the national and provincial levels, which include the skill and capacity required to deal with different reporting frameworks. In line with IPSAS, all controlled entities are consolidated on a line-by-line basis with accounting policies conforming to IPSAS. Notably, GBEs may have a significant impact on financial performance and financial position at the whole-of-government level. Provided the accounting policies of GBEs differ significantly from IPSASs, the complexity of the consolidation process would increase.

The removal of the definition of GBE indicates the concept of CPSE albeit without a more specific explanation. This aspect depends on the jurisdiction, which results in a disparate and uneven application of accounting rules despite their similar nature. For example, two government-related organisations, namely MARA and FELDA, possess the same characteristics and respective subsidiaries that are in line with MFRS. While MARA adopts MPSAS, FELDA adopts MFRS. Accordingly, Accountant A presented their opinion:

“IPSASB has withdrawn the definition of GBE and replaced it with the definition of the public sector. IPSASB also introduced the concept of CPSE but did not include a definition and left it to the respective jurisdictions to provide the definition of CPSE and determine the application of appropriate accounting standards. This has given us problems. So, that's why we need a comprehensive study that takes into account all the factors and perspectives that have been discussed in order to provide a solid definition of CPSE.” [translated]

Concerns have also been raised regarding the importance of a GBE definition considering the similarity between the users of GBE financial statements and those of other public sector entities. AGD requires a government agency that aims to be established as a government through MPSAS (substance). However, the definition of CPSE should also consider the existing legislation, as reflected in the following statement by Accountant C:

“The problem is how we decide who needs to use MPSAS. If possible, we want to ensure that government agencies and related entities use MPSAS. With the GBE, as before, setting accounting standards is easier. But now, GBE has been removed. As a result, in our situation, it can be challenging to determine the accounting standards that government agencies should adhere to. For example, if the entity is a half-statutory body, by nature, it looks like it falls under the federal government and should apply to MPSAS. But if we go back to the legal framework in which it was established (e.g., under Bank Negara or the SSM), the entity should apply the standards issued by MASB. So, it is not clear.” [translated]

In AGD, efforts have been made to identify the source of the authority for the application of accounting standards, such as the Companies Act 2016. The source of the application of accounting standards is found through the observation of relevant acts including the Act 240 Statutory Bodies (Accounts and Annual Reports) Act 1980. However, several agencies do not enact specific acts, such as local authorities. In line with this, Accountant B presented the following statement:

“If we look at the MASB's position, they propose to look at the matter from a legal point of view. If a company is incorporated under the Companies Act, then that company has no option but to apply the MASB's accounting standards. However, our argument is that we must also consider the purpose and objective of the incorporation. It could have been incorporated to play by the rules of the public sector, such as providing services to the public. This is where the confusion arises.” [translated]

Accountant B continued with the following explanations:

“In addition, there are several laws with which Federal statutory bodies must comply. First, Act 240² (Statutory Bodies (Accounts and Annual Reports) Act 1980). The Act sets out the reporting requirements for federal statutory bodies. Second, Treasury Circular (PA 3.2), issued by the Ministry of Finance (MOF). The circular (PA 3.2) describes the accounting principles and standards to be used by federal statutory bodies. However, not all federal statutory bodies are subject to this law, as some statutory bodies are established under certain laws or by certain jurisdictions, such as *Pihak Berkuasa Tempatan* (PBT). Act 240 does not apply to the state PBTs, which are all under the control of their respective state governments. This issue also needs to be considered in forming the definition of CPSE.” [translated]

²Under Act 240:

1. Every statutory body shall keep or cause to be kept proper accounts and other records in respect of its operations in accordance with generally accepted accounting principles (GAAP).
2. The minister may prescribe guidelines in respect of generally accepted accounting principles, accounting policies, and other matters of an accounting or financial nature related to the accounts of a statutory body.

The source of authority for the federal government and the state government is the Financial Procedure Act, which has not been amended. Besides, the PBT source of authority remains ambiguous under the Statutory Body Act 240. Accordingly, Accountant B stated his opinion:

“We also have other laws that need to be considered, such as the Financial Procedure Act. The Financial Procedures Act 1957 (revised 1972) governs the control and management of Malaysia's public finances and describes financial and accounting procedures. However, it has not yet been amended to include accrual accounting. In addition, as mentioned earlier, we have Act 240, which does not apply to the state PBT. Thus, the application of accounting standards for state PBT is still unclear.” [translated]

Another explanation was expressed by Accountant B, which is as follows:

“The application of accounting standards for some government entities is also inconsistent, as the federal government does not have clear legislation on this matter. For example, Majlis Agama Islam (under Majlis Raja-Raja). It has been agreed with the Majlis Agama Islam that it may use Islamic accounting standards and not MPSAS. Another example is the FELDA. FELDA has subsidiaries that prepare their financial statements in accordance with MASB accounting standards as they are incorporated under the Companies Act. For this reason, FELDA has applied to use MASB accounting standards to facilitate the preparation of its consolidated financial statements. We understand that FELDA is a government agency that has to apply the MPSAS. Look at MARA, whose corporate structure is similar to that of FELDA, with subsidiaries of MARA preparing their financial statements using MFRS. And MARA prepares its financial statements using MPSAS. For the purpose of the consolidated financial statements, the financial statements of the subsidiaries (prepared using MFRS) are restated in accordance with the requirements of MPSAS. So we have diversity in the use of accounting standards by government agencies and hope that things can be clarified with the definition of CPSE.” [translated]

Overall, based on the interviews with the accountants in this study, four main issues were identified in the effort to construct the definition of a CPSE and the framework. These issues included the diversity of definitions, spectrum of entities, government funding, and rules and regulations for financial reporting. Specifically, the following points should be taken into consideration in the construction of the CPSE definition:

- i. The construction of the definition of a CPSE should not solely rely on the definition of GBE.
- ii. The objective substance of the establishment should be considered besides the legal status of an entity.
- iii. The entity should still be receiving funds from the government.
- iv. An entity established under MOF (Inc.) companies (MKD) is still required to continue operations despite the losses, such as infrastructure.

- v. An entity established as a company is limited by the guarantee established as a not-for-profit.
- vi. An entity is partly for the purpose of profit and the purpose of public service provision.
- vii. An entity prepares financial statements using SAGA.
- viii. An entity has subsidiaries that use MFRS or MPERS, such as MARA and FELDA.
- ix. Stakeholders such as MIA and MASB should be considered.
- x. The jurisdiction of the federal government and existing acts (such as Act 240, Treasury Circular, and the Financial Procedures Act 1957) are limited, outdated, and do not include some government bodies such as PBT.

5.0 Conclusion

The study determined whether it is possible to build the concept of CPSE using the definition of GBE. Analysis and comparison were made between the definitions of GBE found in nine different countries. This was followed by interviews conducted with three AGD accountants to identify the issues related to GBE and CPSE. Notably, this study is important due to the objectives of financial reporting and the primary users of financial reports, which are distinguished from the entities that primarily have a service delivery objective and the entities that are primarily profit-oriented. The inappropriate classification of a public sector entity may lead to the application of financial reporting standards that may include unsuitable requirements. This condition could impair the quality of the financial information for users, which subsequently undermines the ability of the information to meet the objectives of financial reporting.

Based on the findings of the content analysis, this study highlights the importance of appropriate classification of a commercial public sector entity considering the proper use of the standards of either MPSAS or MFRS. This aspect is in line with the IFRS framework, which states that the financial statements provide financial information about the reporting entity that is useful to the existing and potential investors, lenders, and other creditors in their decision-making about providing resources to the entity. Furthermore, it was also indicated that the nine various countries' official definitions of GBE include elements that are both similar and distinct from one another. This study also demonstrated four primary issues arising in the attempt to apply the definition of GBE to the construction of the definition of a CPSE. These issues emerge from the diversity of definitions, the spectrum of entities, government funding, and the rules and regulations of financial reporting. Arguably, the classification of a GBE elaborates the concept of commercial in the entities that can be iterated and considered for establishing an appropriate definition for a CPSE in Malaysia. Notably, this definition is important to understand the potential of CPSEs under both financial and non-financial performance conditions. The findings in this study have also contributed several insights into the possibility of adopting the characteristics of GBE into CPSE. This is followed by a certain degree of understanding of the issues relating to GBE and the importance of resolving them before constructing the CPSE definition in Malaysia. Solving the issues highlighted in this study would facilitate the construction of a more definitive definition of CPSE in Malaysia.

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