

Challenges in Constructing a Commercial Public Sector Entity Definition Framework in Malaysia

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Abstract

Purpose: This study aims to examine the challenges in constructing a commercial public sector entity definition framework in Malaysia.

Design/ Methodology/ Approach: This study employed a qualitative methodology, specifically utilising interviews as the primary data collection method. The participants in this study were individuals affiliated with public sector organisations in Malaysia. A total of 23 individuals were involved in this study.

Findings: This study identified ten primary challenges surrounding the construction of a commercial public sector entity definition framework in Malaysia. The ten issues comprise the legal identity of an entity, controlling party, internationally recognised accounting standards for private companies, the future of Malaysian Public Sector Accounting Standards (MPSAS), threshold setting in categorising entities, guidelines on the application of accounting standards, profit distribution of entities, Malaysian Accounting Standard Board (MASB) mandate, government funding, and establishment. These ten issues were evaluated to determine the definition of a commercial public sector entity (CPSE).

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Research Limitations/ Implications: The implications of the study's results highlight that it is necessary to assess these issues prior to developing the framework for defining commercial public sector firms. This assessment is crucial to guarantee that the framework aligns appropriately with the scope of public sector entities in Malaysia.

Practical Implications: The implications of the study's results suggest the potential for developing a framework for defining commercial public sector entities within Malaysia.

Originality/ Value: This study is the first attempt towards constructing a commercial public sector entity definition framework in Malaysia.

Keywords: Commercial public sector entity, definition, framework, public corporation, Malaysia.

1.0 Introduction

One of the key objectives of the Government Transformation Programme (GTP) is to strengthen the commercial orientation of government agencies (Jabatan Perdana Menteri, 2010). The initiative was implemented in 2009 with the objective of attaining measurable improvements in seven National Key Results Areas (NKRAs): crime, corruption, education, urban transit, poverty, rural infrastructure, and cost of living (Siddiquee, 2019). The programme aligns with the observation that governments worldwide are increasingly adopting commercial practices, leading to the creation of CPSE as significant catalysts for transformation (Xavier et al., 2016). This technique is recommended due to the numerous opportunities it presents for achieving high performance despite potential hurdles.

Commercialising public sector entities presents numerous challenges. One such challenge is the absence of a clear definition for a CPSE, not only in Malaysia but globally. As per the MPSAS, the CPSE, as presently in existence, is plausibly analogous to a "government business entity" (GBE). While the International Public Sector Accounting Standards Board (IPSASB) has provided a definition for GBE, it is excessively general in scope. Due to various GBE-related concerns, the IPSASB has decided to discontinue further debate on the issues and disregard its definition. The definition of GBE stipulates that the entity in question must possess the legal capacity to enter into contracts in its own name. This requirement is designed to demonstrate the autonomy of the entity. Nevertheless, in certain jurisdictions where government ministers are legally required to sign all contracts with public sector entities, meeting this requirement has proven challenging. The jurisdiction in which public sector entities are not authorised to enter into contracts may vary. Despite having explicit commercial objectives and a consistent history of attaining profit targets, a GBE is defined as an entity that meets these conditions. The formulation of the CPSE definition is anticipated to present comparable difficulties. There have been discussions regarding whether a GBE-eligible entity should be disqualified from classification solely, as all contracts must be signed by a

government minister, as mandated by law. Comparable obstacles are expected to emerge during the process of defining a CPSE.

Another challenge is that the organisation must have been granted the financial and operational autonomy to carry out commercial activities to qualify as a GBE. Although all GBEs possess a degree of operational and financial autonomy, the governance and autonomy of GBEs vary according to the arrangements in place in each jurisdiction. Certain GBEs function within rigorous financial and performance limitations established by the government during their establishment, which are subjected to periodic evaluations. In contrast, some entities enjoy a higher degree of autonomy in their operations. When a government takes over a financially troubled business, it typically establishes objectives and reporting lines for the entity. Other government-owned enterprises may be subject to the decisions of government-appointed regulators to examine issues such as service standards and pricing independently. Hence, when developing the definition of CPSE, it is imperative to carefully consider and make informed decisions regarding the level of autonomy that ought to be granted to the entity, and determining the appropriate governance framework it should follow.

Additionally, an organisation must not depend on government funding to sustain its operations to qualify as a GBE. The IPSASB has highlighted the ambiguity in the definition of "continuing government funding", suggesting that the application of this criterion varies among jurisdictions. Certain jurisdictions permit the government to provide guarantees to resource providers or concessionary loans to entities to facilitate fund acquisition for investment or working capital by a controlled entity. Additional sources of government funding comprise periodic loans for the acquisition of assets and/or expansion of the entity's scope of operations, in addition to loans or equity infusions for initial financing. Entities that do not acquire direct operational subsidies may be forced to rely on such continuous financing. Hence, when constructing the definition of CPSE, one must consider the limits of government funding. Therefore, this study aims to examine the challenges in constructing a commercial public sector entity definition framework in Malaysia. The study's findings are anticipated to provide some understanding of the challenges in constructing the CPSE definition in Malaysia. The remainder of this study is structured as follows: A literature review relevant to this study is in the next section. Subsequently, the research methodology is explained, followed by the study's findings. The final section concludes this study.

2.0 Literature Review

2.1 Public Sector Entities in Malaysia

The Malaysian public sector is of paramount importance in driving the nation's pursuit towards global competitiveness. This pursuit is achieved through the facilitation of the efficient and effective execution of governmental programmes (Nik Abd Rahman, 2006). The public sector comprises the economy segment encompassing public services and companies. The public sector also encompasses a range of entities that provide public goods and offer governmental services, including but not limited to law enforcement, infrastructure development, public

transportation, public education, and individuals employed by the government. Public companies are commercial organisations that function by depending on a self-financing basis and are owned by the public. These entities offer a variety of private products and services for sale, often operating within a commercial framework (Flynn, 2007). Public sector organisations refer to permanent or semi-permanent bodies within the governmental structure that are responsible for overseeing and administering certain duties, such as the planning agency (Njoki, 2011).

Public sector entities can be categorised into four distinct groups: entities falling under the jurisdiction of the Federal Government and Ministries, entities falling under the jurisdiction of the State and Departments, and public corporations, which can be further subdivided into entities established under statutory laws and entities established under non-statutory laws (Department of Statistics Malaysia, 2022). Table 1 displays the five different features associated with each category, including the source of power, the party accountable for governance, governance practises, annual reporting, and accounting requirements, and the auditor.

New Public Management (NPM) has been linked to public sector reform and modernisation in the Organisation for Economic Co-operation and Development (OECD) and developing nations since the 1980s (Mongkol, 2011; Siddique, 2019). Since its adoption in Western liberal democracies, NPM has driven public sector reforms, including several notable public sector changes globally (Islam, 2015). The initiative aims to align financially constrained and inefficient public sector organisations with entrepreneurial concepts and methodologies, thereby enabling the private sector to assume a greater share of government obligations and services (Hope, 2001). Public-sector organisations should be more integrated into business management practices, with Malaysia typically leading emerging nations in public service improvement. The NPM approach suggests major modifications to the bureaucracy's structure and functioning, potentially leading to public sector commercialisation (Siddique, 2019). In addition, corporate governance is promoted by NPM in public sector organisations. By increasing the participation of the private sector in government services, NPM seeks to enhance cash-strapped, inefficient businesses (Savoie, 2008). Based on the principles of managerialism and public choice theory, NPM argues that the ineffectiveness of public sector bureaucracy necessitates the implementation of private-sector remedies (Hughes, 2012). Due to the massive and inefficient public sector bureaucracy, private sector ideals, management approaches, market mechanisms, and competitive procedures are employed to supply public services (Hughes, 2012). The approach aims to instil public organisations and their staff with a more business- or consumer-oriented market vision (Diefenbach, 2009).

Commercialisation in the public sector entails delineating the offer or product, establishing the public need objectively on the basis of firm evidence, marketing to identify the demand for the new product or service, and establishing an operating environment that maximises the return per pound invested. These elements are critical to building a new revenue stream successfully. In order to sustain a competitive market position, the delivery of public services

must have a greater degree of regularity and consistency in its "commercial" nature. Each organisation must build the necessary systems, competencies, skills, and routines to achieve such a state (Creswell, 2020). Special restrictions apply to the commercialisation of public administration, especially for government business entities (GBEs), which aim to preserve the existing state of affairs. Currently, GBEs are defined by standard setters as government organisations with a separate entity and primary function. Therefore, GBEs sell products or services to private individuals and non-governmental organisations. On the other hand, state-owned enterprises (SOEs) are organisations that the government has created with the intention of undertaking commercial business on its behalf. The GBEs are autonomous companies equipped with the operational and financial means to distribute goods to non-governmental organisations and individuals.

Table 1: Types and Characteristics of Malaysian Public Sector Entities¹

Category	Federal Government and Ministries	State Government and Departments	Public Corporations	
			Federal Statutory Bodies	Non-Statutory Entities
Source of power	Federal constitution and special laws	State body laws and specific enactments	Special Act (e.g. FELDA - <i>Akta Pembangunan Tanah 1956 [Akta 474]</i> & MARA - <i>Akta Majlis Amanah Rakyat 1966 [Akta 489]</i>)	Companies Act 2016
The party responsible for governance	Prime Minister	Chief Minister	As provided by law	Board of Directors
Governance	Ministry of Finance	Ministry of Finance	Ministry of Finance and Establishment Act	Companies Act 2016 and Corporate Governance Code
Annual reporting and accounting standards	<i>Perlembagaan Persekutuan dan Akta Tatacara Kewangan [Akta 61]</i>	<i>Perlembagaan Persekutuan dan Akta Tatacara Kewangan [Akta 61]</i>	Special Act (e.g. FELDA - <i>Akta Pembangunan Tanah 1956 [Akta 474]</i> & MARA - <i>Akta Majlis Amanah Rakyat 1966 [Akta 489]</i>)	Companies Act 2016 and Corporate Governance Code
Auditor	National Audit Department	National Audit Department	National Audit Department	National Audit Department or Independent Auditor
Example	MAMPU, JPA, EPU, Federal Treasury	MAIS, JCORP, MBSA	FELDA, KEMAS, SIRIM, MARA	MAS, FIMA, HICOM, PERNAS

¹Source: Department of Statistics Malaysia. (2022). Note: Statutory entities refer to entities formed under an act or statute of parliament or state legislative assembly, but this does not include a local authority or a corporate body that is incorporated under the Companies Act 2016 (<https://www.mof.gov.my/portal/pdf/bahagian/sbm/faq-en.pdf>).

2.2 Government Business Entity

In accordance with Accounting 101: Financial Reporting Frameworks in MPSAS, Malaysia has embraced the IPSASB-established definitions of GBE. The IPSASB defines GBEs as entities possessing each of the subsequent characteristics (IPSASB, 2014; IPSASB, 2016):

- i. An entity with the power to contract in its own name.
- ii. Has been assigned 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 business.
- iv. Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length).
- v. Controlled by a public sector entity.

Two key approaches to IPSASB's policy on public sector firms developing GBE accounting standards have been examined:

- i. The first approach relates to describing characteristics of public sector entities. The GBE definition is not provided in this approach. However, there are two options within this approach. Option 1a is IPSASB's existing and upcoming terminology, or Option 1b that involves the use reporting requirements and explanatory advice from Government Finance Statistics (GFS).
- ii. The second approach is modifying the current definition of a GBE in IPSAS 1 with the intention to resolve problem in its application. There are two options in this approach. Option 2a relates to clarifying the current GBE definition and Option 2b involves narrowing the existing GBE definition. Option 2a and 2b need not be exclusive. Option 2a and 2b might clarify and restrict the GBE concept (IPSAB, 2016). Both methods led to various issues. Thus, the IPSASB decided to stop discussing GBE and allow nations to argue and define it based on their own beliefs and CPSE. These traits arise from the original GBE definition. Therefore, instead of GBE, IPSAS is used.

Nevertheless, IPSAS mentions only "public sector entities" and defines a public-sector entity as meeting all of the following criteria:

- i. It is the responsibility of public sector entities to provide services that benefit the general public and/ or to redistribute wealth and income.
- ii. The organisation derives the majority of its direct and indirect funding from fees, taxes, remittances from other levels of government, social contributions, and debt.
- iii. Its principal objective is not to generate profits.

In conclusion, to date, there is still no definition of CPSE in the Malaysian context. A potential application of the definition of CPSE could involve the classification of GBEs.

2.3 Construct Definition

Gilliam and Voss (2013) suggested six-step phases for defining latent constructs. The first phase is to compose a preliminary definition. The more abstract the concept, the more indirect the mode of observation necessary to "see" it (Achinstein, 1968). Specific instances are located at the bottom of the ladder. The first step of the ladder contains the abstracted impressions of the world. As higher rungs generalise to bigger sets of situations, each rung becomes less particular (Zaltman et al., 1973). With each rung, the concept's reach broadens, making the precision of definition and the accuracy of measurement more challenging. This issue emerges due to the fact that the human capacity to generate correspondence rules, which describe links between constructs and observable terms, is affected by the amount of abstraction, with higher levels of abstraction posing more challenges (Ryan & O'Shaughnessy, 1980). In this phase, construct definitions and measurements should be carefully matched to the study's objective, with knowledge of the consequences.

In the second phase, a literature assessment and the construction of the nomological network are conducted. Cronbach and Meehl (1955) posited that the "implicit definition" of constructions is determined by their position within the nomological network. "We will be able to say 'what anxiety is' once we have discovered all of the laws involving it; in the meantime, because we are still discovering these laws, we do not yet know precisely what anxiety is" (Cronbach & Meehl, 1955, p. 294). The approach addresses the discrepancy between the mandatory nominal definitions and the theory's implicit definitions by mandating a review of the definition within the intended nomological network. The researcher conducts a literature review in phase two to expand the search to identify the most suitable nomological network. Literature from all subfields and disciplines containing pertinent concepts must be reviewed.

Phase three entails evaluating the value contributed since constructs should be developed in relation to current concepts (MacKenzie, 2003). Lewis (1970) raised several pertinent concerns, as listed below:

- i. What is the history of the phrases, and what is their present widespread meaning among language users?
- ii. What happens to rejected theories?
- ii. How many little changes are enough to warrant redefinition?
- iv. Do we reframe in terms of the old or the new theory?

Lewis (1970) did not offer solutions, but researchers should be mindful of the possible issues of definition or redefinition and apply judgment that demonstrates concern for the field as a whole rather than simply the project at hand. Phase three requires the researcher to examine the literature on diverse subjects through the eyes of a critic rather than an inventor.

The definition is refined in phase four. In order to establish a sound construct definition, ambiguity and vagueness must be eliminated (Bunge, 1967). Hempel (1952) posited that definitional ambiguity and vagueness arise from the absence of clear delineation of word meanings and the inconsistency of meaning among individuals. According to philosophical scholars, complete elimination of ambiguity and vagueness is unattainable. Nevertheless, concerted efforts to mitigate them yield significant benefits (Van Deemter, 2010). An ambiguity occurs when the definition fails to limit itself to a single concept, for instance, when elements of other concepts are inadvertently incorporated, typically due to inadequate phrase selection (Teas & Palan, 1997). It is essential to select precise phrases to minimise uncertainty. A reduction in the number of words that are repeated in definitions of similar constructions leads to a decrease in ambiguity, suggesting that the description ought to be as unique as possible (Wacker, 2004).

The subsequent stage, phase five, entailed a procedure of expert evaluation. The researcher attempts to establish validity in this phase by demonstrating that the items are comprehensible to domain experts. Hardesty and Bearden (2004, p. 106) examined the effects of expert item judging in an experiment. They concluded, "Notably, the current findings support the crucial ability of expert judges to improve eventual scale reliability and, by extension, subsequent validity." The involvement of specialists from the field or industry of research methodology may be highly pertinent, contingent upon the construct being examined (Diamantopoulos, 2005). The nomological network map, the proposed construct, its proposed definition, and definitions for all included constructions with pertinent citations must be provided to peer reviewers. In evaluating the proposed concept and its definition, evaluators must juxtapose them with the most analogous constructs within the network.

The final phase, which is phase six, consists of revising the definition and iterating over the following: Two decision obstacles are presented in phase six regarding the proposed construct, subsequent to the integration of information obtained from domain experts in phase five. The first obstacle concerns whether further refinement could improve the construct's lucidity, explanatory capacity, or predictive power. Subsequently, in this scenario, the procedure should be replicated by commencing at phase two and progressively reducing it to phase six. Consequently, an audit is conducted on the revised construct definition to determine whether the alterations implemented in the suggested construct have increased its resemblance to previously acknowledged pertinent constructions or currently bear a resemblance to any other established constructs (Mowen & Voss, 2008).

3.0 Research Instrument

3.1 Participants

This study involved obtaining an understanding of the issues surrounding the definition of CPSE from the perspective of various public sector entities. In this study, a total of 23 participants from public entities were approached to request their participation. Entities of both statutory and non-statutory bodies were selected, as they are more likely to either qualify or

not qualify as CPSEs. This selection is in contrast to federal government ministries and state government departments, which are confirmed as ineligible CPSEs due to their establishment under Act 240. Table 2 presents the details of the representatives of the chosen public sector entities who agreed to be interviewed, as they are involved with the preparation of the financial report for the entities.

Table 2: Malaysian Public Corporation Participation

Entity	Acronym	Governing Entity	Governing Law
Malaysia Institute of Accountants	MIA	Ministry of Finance	Accountants Act 1967
Malaysian Accounting Standard Board	MASB	Ministry of Finance	Financial Reporting Act 1997
Suruhanjaya Syarikat Malaysia	SSM	Ministry of Domestic Trade and Consumer Affairs	Companies Commission of Malaysia Act 2001
Malaysian Qualifications Agency	MQA	Ministry of Higher Education	Malaysian Qualifications Act 2007
Johor Corporation	JCorp	Johor State Government	Johor State Development Corporation Enactment 1968
Rubber Industry Smallholders Development Authority	RISDA	Ministry of Rural and Regional Development	RISDA Act 1972
Majlis Amanah Rakyat	MARA	Ministry of Rural and Regional Development	Majlis Amanah Rakyat Act 1966
Lembaga Kemajuan Kelantan Selatan	KESEDAR	Minister of Rural and Regional Development	Kelantan State Development Corporation Enactment 1978
Malaysian Palm Oil Board	MPOB	Ministry of Plantation Industries and Commodities	Malaysian Palm Oil Board Act 1998
Perbadanan Kemajuan Negeri, Negeri Sembilan	PKNNS	Negeri Sembilan State Government	Negeri Sembilan State Development Corporation Act 1969

3.2 Data Collection

This study involved interviews with participants from selected entities in public corporations to represent the population. The participants who agreed to participate in this study are considered to represent the entities to which they belong. The participants were approached through telephone and email, inviting them to participate in this study. The interviews were conducted either in their offices or online. The aim of this interview was to obtain an in-depth understanding of the issues surrounding GBE and CPSE. An effective qualitative methodology incorporating semi-structured interviews permits a more personalised dialogue, specifically concerning matters pertaining to GBE and CPSE (Creswell & Poth, 2016). In addition, the interviews allowed the researchers to identify potential characteristics of a CPSE.

Prior to conducting the interview, the researcher prepared a set of semi-structured questions to address and achieve the objectives of the current study. The questions asked during the interview sessions were tailored based on different respondent functions, reflecting the diverse roles of participants across various government sectors, including the federal government and ministries, state government departments, and public corporations.

In addition, triangulation is a strategy used to enhance the validity and reliability of data in qualitative research. It involves verifying evidence from multiple respondent sources and perspectives. Reliability can be achieved by matching the data to the definition and description of each theme to ensure that it matches the operational definition. In connection with this study, data collection was undertaken until accuracy was achieved. Accuracy is achieved when there is no longer a different response from the respondents and the data is saturated.

Table 3: Number of Participants

Organisation	Date	Officer	Designation	N
MQA	29 March 2023	Miss A, B, C	Accountant	3
RISDA	13 April 2023	Miss D, E, F, G, H, and Mr. A, B, and C	Finance Officer	8
SSM	12 April 2023	Mr. D	Senior Manager	1
MIA	13 April 2023	Miss I	Director	1
MASB	14 April 2023	Miss J	Assistant Associate Director	1
KESEDAR	9 May 2023	Miss K	Accountant	1
JCorp	5 April 2023	Miss L	General Manager	1
MARA	17 April 2023	Mr. E, F, and G	Deputy Director/ Accountant	3
MPOB	11 May 2022	Miss M and Miss N	Accountant	2
PKNNS	7 June 2022	Mr. H and I	Accountant	2
Total				23

Table 3 presents the details of participants involved in the study. The number of participants is considered sufficient as the responses of the 23 participants from various public entities are almost consistent, indicating that the data is saturated. This strategy aligns with Creswell and Poth's (2016) suggestion that when a qualitative researcher conducts a study, evidence saturation marks a point where further data collection may not yield significant new insights. In order to reduce bias, interviews were conducted by two researchers. Hence, the presence of two researchers limits bias in terms of the interpretation of the findings.

3.3 Data Analysis

Data analysis for this finding begins with providing transcription and encoding, reducing data to the theme through a coding process and presenting the data in the discussion section. As suggested by Miles et al. (2019), the data analysis comprises data preparation and analysis. The data preparation is based on Miles et al. (2019), which begins with raw data processing before the data is available for analysis. Field notes must be converted to expanded writing, either printed directly or transcribed from the original. Subsequently, the coding begins with the first cycle of coding, followed by pattern coding, and is published with a more general theme.

After the transcription, the coding process is undertaken based on the definition proposed in this study (Refer to Table 4). It continues with the reduction of data to a meaningful segment with a given name. Subsequently, the code is merged into a larger category or theme. In addition, the coding process contributes to an in-depth reflection of the data and, thus, analysis and interpretation of the meaning of data (Miles et al., 2019). This study began with the first coding cycle, initially summarising the data segments and using descriptive coding. Descriptive coding comprises labels given to data to summarise using short words or phrases. Coding is undertaken continuously after each interview, and transcription is completely analysed.

Subsequently, the second cycle of coding, pattern coding, is employed to condense the data into a smaller number of themes. Pattern coding involves creating descriptive or inferential codes that identify themes based on the coding established in the operational definitions provided in Table 4, which have been developed according to Companies Act 2016, the Financial Reporting Act (FRA) 1997, the Act 240 Statutory Bodies (Accounts and Annual Reports) Act 1980, Improvements to MPSASs 2023 (Accountant General's Department of Malaysia, 2023), MPSAS 1: Presentation of Financial Statements (Accountant General's Department of Malaysia, 2013), MPSAS 24: Presentation of Budget Information in Financial Statements (Accountant General's Department of Malaysia, 2013), and the Handbook of International Public Sector Accounting Pronouncement (IPSASB, 2022).

Table 4: Identified Themes and Operational Definition

No.	Theme	Operational Definition
1.	The legal identity of the entity	The legislation associated with the incorporation of an entity. For example, private companies are incorporated under the Companies Act (CA) 2016.
2.	Controlling Party	The party that controls the operational decisions of an entity through the holding of ordinary shares of an entity.
3.	Internationally recognised accounting standards for private companies	The need to use globally accepted accounting standards for private companies that meet the information needs of investors.
4.	Future of MPSAS	The development of the MPSAS will align with the Malaysian Financial Reporting Standards (MFRS) in the future, with some conditions that will remain permanently different due to the unique treatment of public sector entities.
5.	Threshold setting in categorising entity	The need to use some important thresholds in determining the type of entity, whether public sector or CPSE.

Table 4: Identified Themes and Operational Definition (continued)

No.	Theme	Operational Definition
6.	Guidelines on the application of accounting standards	The need to establish a committee under Jabatan Akauntan Negara Malaysia (JANM) responsible for evaluating and developing guidance on the application of appropriate accounting standards for government entities and their subsidiaries.
7.	Profit distribution of entity	Government entities that pay dividends or other types of returns to shareholders.
8.	Mandate of MASB under the law.	The purpose of establishing the MASB in accordance with the relevant laws based on the FRA 1997.
9.	Government funding	Financial resources provided by a government entity.
10.	Purpose of establishment	The purpose of why an entity is established.

As indicated in Figure 1, each opinion statement was written in Microsoft Word and sent to ATLAS.ti for code-based analysis. The coding technique was based on the operational definition. The coding trend was subsequently used to generate ten key themes. Figure 1 depicts the ATLAS.ti application used for data analysis in the code manager.

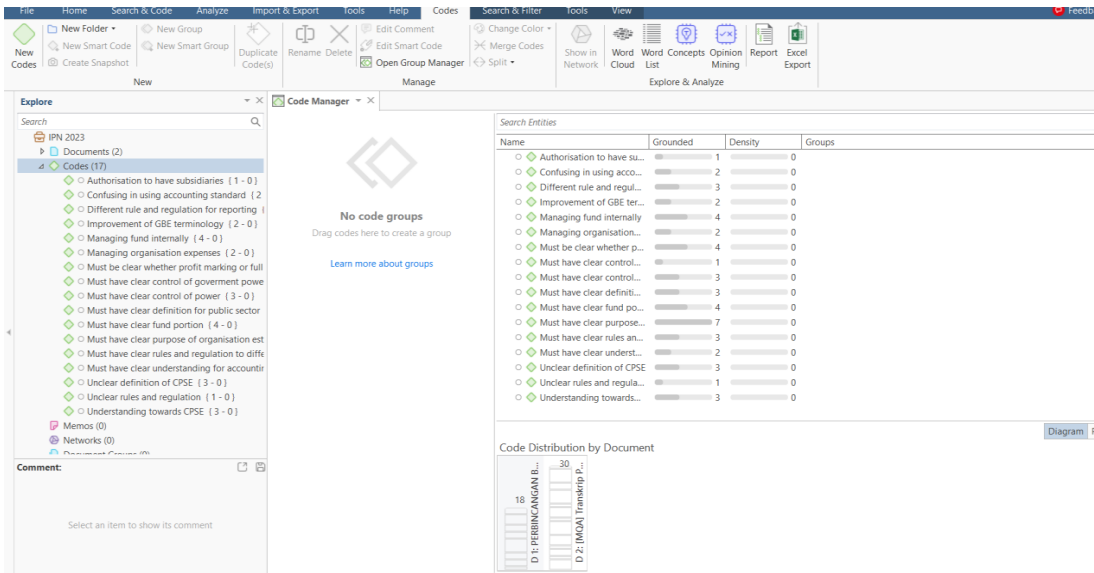


Figure 1: Example of ATLAS.ti Coding Process

4.0 Findings

From analysing the interviews, ten themes related to issues in constructing the CPSE emerged. The ten issues that need to be considered are the legal identity of the entity, the controlling party, internationally recognised accounting standards for private companies, the future of MPSAS, the threshold in categorising an entity, guidelines in the application of accounting

standards, profit distribution, the mandate of MASB under the law, government funding, and the purpose of establishment.

4.1 Legal Entity

One of the issues that has been dominantly discussed during the interviews with the respondents is the legal identity of the entity. In this study, the legal entity refers to the legislation associated with the incorporation of an entity. For example, private companies are incorporated under the CA 2016. In determining whether an entity should be classified as a CPSE or non-CPSE, it should look into the legal identity of the entity. If the entity's legal identity is established under the CA 2016 or the FRA 1997, the entity should be classified as a CPSE and apply the Malaysian Financial Reporting Standards (MFRS). Conversely, if the entity is founded on regulations outside the purview of the CA 2016 or the FRA 1967, it should not qualify as a CPSE. In view of this difference, MASB is established under FRA 1997 instead of the Statutory Body Act 240. Hence, the JANM has no authority to govern and direct MASB to use MPSAS since MASB is subject to the requirements of FRA 1997. This statement aligns with the view of one of the participants, Miss J:

I think at the point when we first started our International Financial Reporting Standards (IFRS) journey, MPSAS was not yet born. MPSAS came in very much later during this stage, so of course, at that time, the applicable accounting standards were MFRS. So fast forward to now, and why we are still applying the MFRS is because, if we look at the legislation so well, we have the circular or the government directive for the public sector to apply emphasis or an encouraging basis. They are not saying it is mandatory, but the approach is to look at the source of power, right? What is the source of power for a regulator? in this case, JANM, to mandate the application of MPSAS to all of the public sector? So, in all the discussions that we have with JANM, informally or formally, I think the approach is always to look back into the identity of the entity. [translated]

Miss J provides further explanation:

So, like MASB, we are established under the FRA 1967, and the FRA 1967 has a clear scope exclusion that says that Akta Badan Berkanun's Act 240 does not apply to it. So I think that is one of the key criteria in determining, and we are not the only ones; there are a few other federal statutory bodies that apply MFRS, and that is basically the justification or the decision behind it, like, if we go back to the legislation, what is the legal identity, what is the identity of an entity, and whether it is clear in the act that the entity is corporate or incorporated as to what would be the financial reporting framework that is applicable. [translated]

Public sector entities commonly have subsidiaries. Some of the subsidiaries are acquired through shareholdings, while others are established by the entities. The participants were queried about the classification of subsidiaries of the public entity, including whether these subsidiaries were established with the intention of generating profit or providing public services. This study posits that although the parent company may follow different accounting standards, determining the applicable standards for the subsidiary depends on its own legal identity. If the subsidiary is a company incorporated under the Companies Act, the appropriate accounting standards, such as Malaysian Private Entities Reporting Standards (MPERS) or MFRS, should be applied. Miss J responded to this issue:

Well, the subsidiary may not be a public sector entity, in my personal view. Well, overall, if you are looking at a broader picture, yes, they are there to support the parent, and the parent here, RISDA or Federal Land Development Authority (FELDA), is ultimately a public sector entity, but I think we also need to apply the principle, I would say, at the level of the entity, so now we are talking about entity-specific accounting standards and what would be the applicable accounting standards for that particular entity. Of course, the parent will eventually consolidate it, and the parent may use a different set of accounting standards, but in order to determine the subsidiary level, we must consider what the subsidiary's actual activity is. In that case, I believe the question is: Is the subsidiary a business that has been incorporated under the Companies Act? If it is, then clearly the accounting standards that should be applied to them must be MPERS or MFRS, depending on the legal identity of the entity. [translated]

This study reveals that some public sector entities were established under CA 2016, indicating that the legal identity of these entities does not fall under the definition of the federation of the statutory bodies. As per the provisions outlined in Act 240, a statutory body is any entity, regardless of its name, which is incorporated in accordance with federal law and functions as a public authority or an agency of the Government of Malaysia. This definition excludes local authorities and body corporates incorporated under the CA 1965. A federal statutory body is a distinct legal entity, comparable to a corporation, with the authority to administer, sue, and be sued in its own name, execute contracts, and own, purchase, and retain assets. In the case of one entity, the interviewee explained that her entity is formed under the CA 2016 and, therefore, is not considered a statutory body. Miss F explained:

RISDA has 15 subsidiaries established under the CA 2016 to assist RISDA operations, such as RISDA Fertiliser, which processes fertilisers. Due to that, the subsidiaries must use MASB accounting standards. [translated]

4.2 Controlling Party

The second theme that has emerged is controlling parties. In this study, the controlling party refers to the party that controls the operational decisions of an entity through the holding of

ordinary shares of the entity. The participants were asked whether a public sector entity should be classified as a CPSE if it is a fully government-controlled entity. This question arose in response to IPSAS, which has withdrawn the definition of GBE and delegated it to each jurisdiction to provide the definition of CPSE, which replaced GBE, for the purpose of applying appropriate accounting standards. In response, this study discovered that most of the participants agreed that the entities that are classified as CPSE may, but need not be controlled by the public sector entities. Miss J provided her opinion as follows:

I think, first and foremost, that IPSAS no longer provides a definition of what would constitute a GBE or CPSE, the current term. And I think the reason for that is because they are catering to the world, and it's unlikely for them to basically come up with a rule for each jurisdiction, so it is then up to the jurisdictions to determine the right. So here we are determining what CPSE is for the context of Malaysia, but I think it is also made clear in the MPSAS that if you are not a public sector entity, then this is not applicable to you. So, if we are looking at that route and we are just following back in terms of what's stated in the MPSAS, which is very clearly stated that if you are a public sector entity and here are the criteria of a public sector entity and you need to apply MPSAS, if you are not, then it's basically you're out. So, once you are out, what would be the next applicable approval grounding standard in Malaysia? There's MPSAS, of course, which you can apply to on a voluntary basis, and there's also a MASB-approved accounting standard. So, I think that's also an approach that maybe the researcher can consider looking into. So, coming back to question two, we don't think that it needs to be a fully controlled government entity for an entity to be a CPSE because then it kind of blurs the line between what is really a public sector versus a CPSE if a CPSE also needs to be fully controlled by the government. [translated]

Another notable finding from this study is that there are few public sector entities contending that they can be classified as CPSEs due to their accountability to shareholders. Miss L noted that:

We are accountable to our shareholders. At the holding, shareholders are the State Government of Johor, which has one special share, and *Menteri Besar* is the chairman of JCorp. From our subsidiaries, we have shareholders since the companies are all public listed companies. [translated]

This view is further supported by Miss I, who presented a compelling argument that, despite the majority of council member positions being held by representatives from public sector entities, the ultimate authority for major decisions still lay with the President, who was appointed by the oversight committee. She further clarified this statement by stating the following:

That is, the control is not really there; it's just that we do report to the Ministry of Finance (MOF). Financial statements are all filed with MOF. The appointment of the CEO is not under the MOF, only the appointment of council members. We have 30 council members. Twenty are appointed by MOF. Then, ten will be elected when we have the AGM. So yes, in a way, maybe we are controlled. Actually, if we look at the definition of control in MRFS 10, perhaps we are being controlled by MOF. The CEO is not the MOF appointee. The President is appointed through voting by the council members themselves. The CEO is appointed by the oversight committee of the MIA. This oversight committee is appointed among the council members. [translated]

4.3 Internationally Recognised Accounting Standards for Private Entities

During the interview sessions, internationally recognised accounting standards for private entities were also mentioned multiple times. This theme refers to the necessity for private companies to utilise internationally recognised accounting standards that satisfy the information requirements of investors. Consolidation and reporting are two critical components of financial accounting and reporting. They entail the procedures through which financial data for an organisation or a group of organisations is organised and communicated meaningfully. In this process, the financial statements of multiple entities under common control are consolidated to present the financial position, performance, and cash flows of the group as if it were a single economic entity. When a business has subsidiaries, partners, or joint ventures, consolidation is required to provide a unified view of the group's financial activities, subject to the regulations of the applicable jurisdiction.

The participants were asked about their opinions with regard to the necessity for the legislation to be changed to ensure that the subsidiaries adopt the same accounting standard, which is MPSAS, as the parent company. Several participants mentioned that there would definitely be potential challenges and implications from applying different accounting standards to subsidiaries of public sector entities due to the fact that the current reporting ecosystem for private entities seems to be more advanced, effective, and internationally recognised. In addition, a few of the participants also agreed that similar to foreign investors, they would be more appreciative of the consistency in accounting standards, which can facilitate understanding and harmonisation of financial reporting. Miss L explained:

JCorp is established under the Corporations Act. The rest of the companies (approximately 250) were established under the CA and registered with SSM. So, we decided to use only MFRS, including for JCorp, for two reasons. First, we have public listed companies and private companies (established under the CA) in our group, which are required by the Act, Bursa Malaysia, and the Securities Commission (SC) to use MFRS. So, it is better for us to use only one accounting framework, MFRS, including JCorp. Secondly, JCorp issues Sukuk to commercial banks and becomes an entity that has public interest (banks). Once the entity has a public interest, financial statements must be

prepared using MFRS. In addition, the banks will request a financial statement from JCorp on a regular basis. So, better financial statements for JCorp are prepared using MFRS.

This study also discovered that the participants opined on whether it was necessary to change the current legislation. Imposing MPSAS on subsidiaries that adopt MFRS can be confusing, especially to foreign investors, which will obviously impact relationships. If MPSAS is to be imposed on the subsidiaries, the legislative measures should define which entities are subject to specific accounting standards. Nevertheless, this study finds that it is common for the parent company and the subsidiary to use different accounting standards, which is quite normal. In addition, a gap analysis during the consolidation process is also common. Miss J provides her opinion as follows:

Well, I think it is a far-fetched point, but possible or impossible. It depends on how strong the force is and whether the government really wants to pursue this agenda or not; that also plays a role in how far this idea can go. Coming back to the overall structure and the overall ecosystem that we are currently in, I think that when it is not broken, there is already an ecosystem for the private companies to report, and our ecosystem is not our own, which means we are internationally recognised, and our accounting standards are internationally recognised. So foreign investors find it very pleasing with our reports because it speaks the same language as theirs, you know, so while the subsidiaries of a public sector may have a so-called direct or indirect link to the parent being a public sector, they themselves are the engines of generating profits, and they are in the environment of so-called commercial, so if we were to impose MPSAS on them, foreign investors may be frowning like, "I do not know what you're reporting on; I'm not familiar with you," so that is a very high-level point, and the second point is also about the process. [translated]

4.4 Future of MPSAS

The subsequent theme that has emerged from the interview sessions is the future of MPSAS. This theme refers to the development of the MPSAS, which will be consistent with the MFRS in the future. Nevertheless, some conditions will be permanently different due to the unique treatment of public sector entities. The participants were asked for their opinion on whether IPSAS will eventually be consistent with IFRS in the future. Most of the participants opined that MASB and MPSAS are expected to align with IPSAS and IFRS in the future. Nonetheless, they opined that MPSAS may have unique accounting treatments for specific transactions that may not be applicable to a business entity. Miss J opined:

Yes, that is a very fair point because IPSAS, if we see the trend, started with a very unique accrual-based standard for the government and the public sector, and as time goes by, they also consider what's happening in other parts of the world and what's happening in the IFRS world because now there is also an

accrual basis. So, the recent episodes of amendments to IPSAS have been very closely mirroring what is in IFRS. So, I agree with that point. [translated]

This study also discovered that the participants feel it is still early for JANM to impose MPSAS on entities. The participants opined that Malaysia has yet to reach this level. At this stage, the government is still struggling to apply accrual accounting instead of cash accounting. The suitable time has not arrived for JANM to apply uniform accounting standards for the preparation of financial statements that can provide information on the total amount of national assets and liabilities. As explained by Miss J:

That is a very big question because we all know that our government has not reached that point yet, right? All they have is that, yes, they have separate reporting based on accrual, but it is not there for the public to see what their accrual is. How much is your asset? How much is the federal government making? We don't know on an accrual basis, and we don't know on an MPSAS basis because they are not there yet. But at the same time, they are asking all the entities under them to apply it already. That is why I said, in the beginning, I was not really sure about why because the government itself, well, they say 2016, and then they postponed to 2018 or 2020, but till now, there hasn't been any, and when we were, you know, casually chatting in that community of JANM, well, they see it depends on who is at the top. That one to really bring this agenda forward, that one to really let you know when they have an accrual financial statement for the government of Malaysia. So, I really do not know the motivation behind it. [translated]

Another finding that can be found in this study is that MPSAS is still in progress and slowly inching towards MFRS. Therefore, the future of MPSAS is transitioning, and certain accounting treatments for specific transactions need to be reclassified to align with MFRS. Miss I was also optimistic that IPSAS would eventually be consistent with IFRS in the future. She opined that MPSAS may have unique accounting treatments for specific transactions that may not be applicable to a business entity. Miss I emphasised that:

Indeed, for example, I am IPSASB's technical advisor, as at the last meeting in March, IPSASB approved the revenue standard. This standard revenue indeed has two approaches. One with performance obligation, another without performance obligation. The one with performance obligations is the same as MFRS 15. It's just that the IPSAS, without performance obligation, has its own guidance that it develops. But with performance obligations, it's the same as IFRS 15. So, I believe the 16 will most likely use the same approach. And then, after 16, there is no longer a major standard, which is IFRS 17. I think most public sector entities don't use IFRS17, maybe except for, I don't know, Social Security for the Self-Employed and Platform Workers (SOCSO), which has another different IPSASB with a different project on that, and so other than that, there is no standard major anymore. [translated].

This response is further supported by Mr. D:

I did not read the MPSAS in great detail, but from what I understood, the MPSAS is the accounting standard that was a few versions before MFRS. So, I think it is like you are scaling down MFRS backwards. So, MPSAS is now catching up to MFRS, but they are just a bit lagging behind. I do not think there should be any issue with the transition from MFRS to MPSAS; we only have to reclassify certain figures. I understand somebody in the market has done a comparative study between MFRS and MPSAS. From there, it has to transition to MFRS, where certain figures or certain things may be different from MPSAS and MFRS. [translated]

When questioned about the relationship between the FRA, MASB, MFRS, MPERS, and the CA, this study discovered that the FRA would determine whether an entity should be adopting the MASB standards since a violation of such adoption would lead to non-compliance with the CA. Mr. D noted that:

Under the FRA, which is administered by MASB, they are the organisation that issues MFRS with MPERS, and under the Companies Act, it states that you must implement the standard issued by MASB, so there is no alternative. If this is the case, there is no other option; they must choose between MFRS and MPERS. If not, it will violate the company's act. [translated]

4.5 Threshold Setting for Categorising an Entity

Another theme that has emerged from the interviews is threshold setting for categorising an entity. In this study, this theme refers to the need to use several important thresholds in determining the type of entity, whether public sector or CPSE. During the interviews, participants were queried about the necessity of establishing a specific threshold for public service expenditure as a percentage of total revenue to classify an entity as a CPSE or a public sector entity. The findings revealed that thresholds can vary depending on the business cycle and the broader economic context, leading to inconsistencies in accounting practices. As noted by Miss H:

It is also possible. However, we should not only rely on the threshold to determine whether an entity is a CPSE or a public sector entity. This is because the amount of revenue is not fixed from year to year, which will impact the threshold. For example, if, in a given year, the entity does not get a sufficient grant from the government to cover administrative expenses, sales proceeds need to be used. Therefore, the classification of a CPSE or public sector entity must be based on the objective of its establishment and cannot be solely based on a threshold. [translated]

The study's findings reveal that the participants agree that there is no need for using a threshold as a measure, as it is a quantitative and mathematically based approach. Instead, the focus should be on the principles, which is legal identity, rather than relying solely on quantitative measures. Miss N provides her explanations:

I do not think we should go that route because threshold is a very quantitative measure. And threshold depends a lot on the cycle of a business or the economy; there's a bigger picture that would affect this threshold, so what if one year or three years you're in because of your threshold, the next two years you're out, and just because of that threshold, which is very quantitative and mathematical, that would, you know, force you to switch or change your accounting? So, I think perhaps the better option is to go back to the principles as opposed to, you know, having a quantitative measure. [translated]

This study also discovered that some government entities generate a surplus from self-funding operations that should be utilised to provide a public surplus. This finding led the researchers to explore how government entities determine or guarantee that surplus funds are appropriately allocated. Mr. F responded to this issue by stating that:

Because, if it is self-financing, it returns all of its income to the holding company shareholder as a dividend, making it abundantly evident that it is a CPSE. The problem with the government funding threshold is that when the government self-finances, it allocates any operational surplus to the public service. Moreover, it is a challenge. If we set a revenue ceiling for the public sector, we can conduct business while still serving the public. If the service is public, the MPSAS code should be used. [translated]

4.6 Guidelines on the Application of Accounting Standards

In this study, guidelines on the application of accounting standards refer to the need to establish a committee under JANM, which is responsible for evaluating and developing guidance on the application of appropriate accounting standards for government entities and their subsidiaries. The participants were asked about their opinions on this issue. This study found that the participants agree on the existence of a clear guideline related to the application of accounting standards, whereby JANM must form a committee to review and create a policy on which institutions must use MPSAS and which must not use it. It can reduce the problem of exemptions for MPSAS applications. The participants also opined that companies should use advanced accounting standards since they were developed with current accounting issues in mind. For example, MFRS 9 (not yet within MPSAS) was developed to address accounting issues related to financial instruments. As noted by Miss I:

That is basically how it has been structured, right? And if we are going to use the existing ecosystem, there's MPSAS; this must be a proof of accounting standards, and applicability will then depend on your scope. And the point that

you mentioned about they keep on getting letters from JANM, I say in that committee, JANM, that looks after all these applications from statutory bodies of exemption from MPSAS, we need more years; we need our system to be MFRS9; MFRS9 is not in MPSAS. So why do we need to go to MPSAS when we are already applying IFRS 9? Isn't that a reverse as opposed to, you know, moving forward? So those are some of the things that that committee looks into. I kind of understand the background to it, but in your case, one statutory mode is to apply MFRS, and I think because maybe in their perspective, they have the global parts of it - you know, foreign investments; they used to have a public listed company under them, right? So again, if it's not broken, why amend it? I think maybe they are also on that principle. We have been applying MFRS, and our investors are happy. For the purpose of reporting to the government, if need be, we will provide you with the necessary information. But yes, I think. [translated]

This study also discovered that the JANM's goal is to encourage as many public sector entities as possible to adopt MPSAS, although without a directive (legal requirement). Public sector entities have their own unique identity and may be not-for-profit, but their reporting still needs to be aligned with their activities and legal identity. The legal identity and purpose of the establishment make it difficult to enforce the uniform application of MPSAS across all public entities. Miss J explained:

Well, we would like as much as possible for the public sector to apply MPSAS, even though there is no directive. But again, the public sector has its own unique identity. You may be a private limited company, but you are not making any profit. But that does not mean that your reporting needs to be changed accordingly. At one point, you may change your activity because you are allowed to buy the company's act to do a raise of activities, right? So that has been the mode at that committee; the previous time was very strong and very adamant that all a public sector entity needs to do is apply, but when we present the legislative aspect of it, the advancement versus MFRS and MPSAS, you know, those are the things that legislatively may be quite a challenge also. [translated]

The researchers asked the participants about overcoming the issues related to adopting MPSAS. The response was positive, and they opined that the problems would only arise in the first year of adopting MPSAS. Mr. B explained the following:

For our entity, which has to use MPSAS, I do not see any issues anymore after the first year of using MPSAS, as the opening balance issue will be completed in the second year onward. Meanwhile, for the subsidiary, I think it is better to continue using MASB accounting standards. Then, for consolidation purposes, the financial statements of the subsidiary need to be adjusted to be in line with and comply with MPSAS. [translated]

Nevertheless, the interview revealed that the participants must comply with the regulators' requirements for preparing their financial reports. When the researchers questioned about the effect of using accounting standards on her entity, which also needs to comply with the requirements of the Bank Negara Malaysia (BNM), Miss H explained:

RISDA Insurance previously used MPERS, but because it had to report to the BNM, we had to change to MFRS. And to simplify the consolidation process, we encourage all subsidiaries to use MFRS as well (not MPERS). If RISDA has to use MPSAS, the subsidiaries have to follow the parent, i.e., use MPSAS. If not, it will be difficult for the consolidation process. But MFRS is a good standard and is more advanced compared to MPSAS. We should continue to use that MFRS. So, I think the JANM can make an exception for RISDA to continue using MFRS to facilitate the consolidation process with subsidiaries. [translated]

4.7 Profit Distribution

One interesting theme that has emerged from the interviews is profit distribution. Profit distribution in this study refers to government entities that pay dividends or other types of returns to shareholders. The participants were asked about the possibility that entities that pay dividends or provide any returns to their shareholders could be considered CPSEs. According to the findings from the participants' responses, if the entity aims to pay dividends to its shareholders, then the objective of its incorporation is profit, and it should be a CPSE. Nevertheless, the participants opined that the distribution of dividends alone is not an appropriate criterion for defining a CPSE. Instead, the legal framework in which it was established should be considered. Miss J commented:

So, in the case where the entities are not providing any returns to the shareholders, there is no dividend payout. That is basically the driving force behind it if that is really the case. But what about the aspect of who the entity really is? I mean, we can go that route in determining it, but what about this aspect of who I am actually, where in which law was I born, is it under the provision of the act, for example, and hence I'm a statutory body, I'm not a corporate per se, but if I am a corporate but my parents asked me not to do any activities that generate returns to my shareholders, first it is kind of a bit counter-intuitive because why you are setting up a corporate when the objective is not profit-making, it is not for generating the overall profit for the group? And secondly, the identity of the company itself may not be profit-making; I'm not sure really whether we can really use the dividend distribution as a so-called identifier or factor when we want to define CPSE. [translated]

Nevertheless, the participants argued that although a government entity aims to make a profit, considerations must be made about utilising the profit. Some of the entities make profits, but the profits are channelled back to the public in the form of corporate social responsibility.

As noted by Mr. D:

There are a few organisations during one of the engagements with the ministry - I can't remember which ministry - where they are profit-oriented: someone produces goods, sells them as is customary like trading companies do, and they make money - but then they give the money back through CSR. So, it is actually self-funded. It did the business; the profit that was ploughed back into CSR was channelled to the orphanage, to old folk homes, and to the less fortunate in rural areas. So, in that kind of situation, I think they should be adopting the CPSE and the MPSAS. Because although they are profit-oriented, the money is not used as per normal profit, so it's used towards serving the public. [translated]

4.8 MASB Mandate

The MASB mandate in this study refers to the purpose of establishing the MASB in accordance with the relevant laws (FRA, 1997). The participants were questioned why MPSAS is not under the responsibility of MASB. One of the participants explained that the mandate of MASB is under the law, there is no specific agenda for it, and it is clearly not guided by FRA. The FRA states that the MASB is mandated to develop accounting standards for private companies that are supervised by the three regulators, namely the SC, BNM, and the Suruhanjaya Syarikat Malaysia (SSM). Nevertheless, MASB contributes to the MPSAS's development by being part of the JANM Committee and participating in the discussion process in developing the MPSAS. Miss J explained:

There is no specific agenda for that, and the reason is because we are guided clearly by our Act. The FRA says standards must be developed for the use of entities that have large financial statements with the three regulators: the SC, BNM, and SSM. So that's really our mandate. So, we cannot do beyond that, but how we contribute is that we become part of the JANM's committee, we take part in their discussion process, and we contribute indirectly because it is really not our mandate to look into the public sector entity. [translated]

The study's findings reveal that if the entity is given the choice of whether it wants to adopt MFRS or MPSAS, stringent criteria must be imposed to ensure that the entity does not take advantage of the alternative given. Mr. D commented:

If we want to give choice, then we have to make the criteria very stringent; they cannot be arbitrary. If not later, some will take the easy way out, and ok, then, MFRS or MPSAS. So, we have to set the criteria very stringently. For instance, if the entity is under government control, it has no choice but to choose MPSAS. However, if it is not under government control - perhaps the government owns a 49 per cent stake but does not exercise control over it - then it has the option of using MFRS. But you also have to see how it fits

with the objective of the organisation, whether to serve the public or to be profit-oriented for the organisation. [translated]

This study also attempts to identify the reasons why the participants prefer using either MFRS or MPSAS. The findings indicated the presence of challenges for the participants to adopt MPSAS accounting standards. As noted by Mr. A:

Currently, subsidiaries are still using MASB accounting standards as they are established under the CA. Our holding needs to use MPSAS. For consolidation purposes, there needs to be another set of financial statements for subsidiaries prepared using MPSAS accounting standards. The most obvious challenges are in the opening balance and accounting for leases. Previously, our entity prepared financial statements using MASB accounting standards. When using MPSAS, adjustments to the opening balance need to be made. In addition, the MPSAS framework still has no standards, such as the new MFRS 16, which classifies all lease transactions as finance leases (no more operating leases), while under MPSAS, there is still an operating lease. So, the financial statements of subsidiaries that have adopted MFRS 16 need to be amended for consolidation purposes with those of our entity, which adopted MPSAS. [translated]

4.9 Government Funding

Another issue discussed during the interview is whether funding type plays a role in determining the definition of CPSE. An entity in the government can either be government-funded or internally funded. Government funding refers to financial resources provided by a government entity at the local, regional, or national level to support projects, initiatives, programmes, or organisations that align with the government's objectives and priorities. It involves the allocation of public funds from the government's budget to various sectors or areas of focus. Government funding can take different forms, including grants, subsidies, contracts, loans, tax incentives, or equity investments. These funds are typically disbursed to entities such as non-profit organisations, research institutions, educational institutions, small businesses, startups, local governments, or other public sector entities. On the other hand, internal funding refers to the funds generated by a company or organisation from its own operations and activities. These funds are typically used to finance the company's ongoing operations, investments, and growth initiatives without relying on external sources of financing, such as loans or equity investments.

During the interview, this study discovered that most of the government entities received government funding, particularly operating grants and grants that have been deferred for payments. The researchers asked the participants about the precise goals of the funding and how these funds impact the entities' operations and development budgets. Mr. E responded to this issue. He noted that:

Yes, including grants received. That includes the grant we paid for the current year; we will spend it on the current year only. If you follow that, I read about RM3.7 billion, RM1.2 billion for operating grants, and RM1.9 billion for grants that have been deferred to be paid off, which means that this is development spending. Other operating income was RM8 billion. Exchange transaction revenue is about RM122 million plus RM313 million. So, you have operation one for exchange transaction results of around RM435 billion. [translated]

The participants' responses also indicated that most of the grants were spent on helping the smallholders. For example, Miss G noted that:

The grant received is for the economic development of smallholders. We will receive government grants to finance every development project we have planned. If the grant received is less than the requested amount, we will support it by using internal funds (from Rubber replanting assistance deduction refund (SES) collection). For salary payments, RISDA will receive a government grant under the management budget. For other expenses, we will use the internal fund and monies from the collection of SES. [translated]

In one of the government entities, the source of funds originates from two sources. Miss A explained regarding the government money or emolument expenses received by her entity and, subsequently, how these funds were allocated and used:

In terms of internal resources, we have two sources. Firstly, it is a source from the government, which functions as an emolument expense, and the second source is our internal source, which includes our income. Our internal source of income has two categories: accreditation service income and other income. So, the income of the accreditation service comes from the fees or charges that we charge directly to the institutions of higher learning to evaluate each programme that we offer. During the accreditation assessment, we also charge other charges such as certificate charges, re-evaluation charges, etc. These are all the services we categorise as accreditation services. In fact, the charge we impose on the Higher Education Provider (Pemberi Pendidikan Tinggi [PPT]), which is our main source and our main internal source. In terms of other income, we also have cash, and from that cash, we make a fixed deposit, and we also have tenant rent. We also have our own building, where we have a floor that is still rented by tenants. This is because when we made the purchase of this building, we bought it once with the tenant. Further, we have an extra income from the rental income, and if we do seminars or training courses for PPT, that is also one of our income categories. The other income we get is from small sources such as courtesy sales, books, and so on. [translated]

This study also discovered the methods used to create internal revenue in the participants' entities and the way they set the charges or prices for services rendered. Miss B explained:

We are not a profit-making company. We are an entity that aims to be an agency that was established to fulfil the wishes of MOF, which is not to make this organisation completely dependent on the government. Since 2008, every year we have made various requests for a budget but mostly got certain parts, so we could not get the full budget as requested. For example, if we make a budget request of RM30 million but only RM26 million is approved, it also has several parts that will be divided according to the current percentage rate for the budget. Since 2008, we have also experienced various restrictions, and 2018 was the last year in which we were unable to run our business because we did not have enough budget to cover all the operating budgets. Therefore, we are not classified as a company that focuses on profit because we are an important agency for MOF and can generate our own income to sustain our agency. Maybe one day, the emoluments will not be paid by the government. [translated]

In terms of the considerations and criteria that are taken into account while allocating funds for various operational expenses, one of the participants explained from the perspective of her entity. Miss C provided her explanation:

Similar to a research university, they only received 90% of the requested compensation. Consequently, MQA may experience the same predicament as them. In this case, we attempt to save money and create personal budgets for the future. [translated]

Nevertheless, in cases where the government entity faces losses, the government will still intervene to save the entity. Miss C explained:

In fact, it already happened a few years ago when MQA was categorised as a loss. Thus, MQA can apply for additional allocations from the government, and we have also made this application in 2019. If MQA does not submit this additional allocation application, then our party will be responsible for all losses, forcing us to use our own internal resources. This is because we have cash reserves, and from here, we are able to cover some of the operating costs ourselves. In the meantime, we also made improvements in terms of savings. As mentioned before, we are not a company that focuses on the company's profit solely, which is based on the charges that are levied, but all the charges that are levied are based on the approval of the minister. [translated]

4.10 Purpose of Establishment

Generally, it is known that a government entity is established to deliver services to the public. They are typically established to perform duties that government agencies would be prohibited from performing for legal or other reasons. Nevertheless, profit-based entities are permitted to operate under the auspices of government entities. A profit-making entity is an organisation whose principal aim is to generate financial returns and profit for its shareholders or proprietors. The researchers started the interview with a representative of a public corporation by asking about their business model. Mr. A explained:

RISDA focuses on smallholders who grow rubber. RISDA is responsible for helping smallholders increase their income through fertiliser and rubber tree subsidies. In addition, RISDA will also hold training for smallholders. RISDA receives full funding from the government and will spend the funds as directed by the Treasury. [translated]

The researchers proceeded to ask the participants their opinions on the criteria for being categorised as a CPSE. Most participants agreed that the main criteria in identifying whether the entity should be a CPSE is the purpose of establishing the entity. Miss A provided her opinion as follows:

It should be based on the purpose for which an entity is established. If it is for the provision of public services, then it must be not-for-profit (i.e., a public sector entity). If it is profit-oriented, then it can be classified as a CPSE. [translated]

By commenting from the subsidiaries' point of view, the participants also agree that the purpose of establishment is crucial in determining whether the subsidiary companies should be categorised as CPSE or non-CPSE. Miss I posited that:

You can refer to IPSASB's actual framework, which has a definition. It's just that I think the issue when it comes to the subsidiary may have to be changed a little because this government is direct, meaning it provides the public service, but things like the listed subsidiary of RISDA, it's not direct. Indirectly, so whether we need to factor that in if we want to make a definition because I have a first early argument even though he is a listed company but at the end of the day, he wants to support RISDA right or the Tabung Haji Plantation board wants to support Lembaga Tabung Haji like that. [translated]

The aim of an entity is to cover all of its costs through the fees or charges it imposes on its customers or users. Full cost recovery entities focus on ensuring that the revenue they generate fully covers their operational expenses, including direct and indirect costs. Due to this scenario, questions have been raised on whether the entities should be classified as CPSE. Miss K provided her opinion about her entity:

In my opinion, we are still under government administration, where the services that we provide and the function of our entity are to provide services to the people. This refers to Act 605. [translated]

The researchers asked the participants about the possible issues that a CPSE can face when offering corporate social responsibility (CSR) services to the public while charging fees and what are the main causes for achieving both goals (CSR and fees) concurrently. Miss C explained:

CSR is a service provided to the public, and it will be difficult when there is an established authority. This is because we want to provide the best service to the public while also charging them a reasonable fee. If we intend to continue using CPSE in the agency, the CSR concept cannot be achieved, and the fee charged will also increase. [translated].

After considering the above findings, a new framework that depicts the CPSE definition is proposed in this study. The framework serves as guidance for JANM to determine whether a government entity is a CPSE or non-CPSE. Figure 1 illustrates that in determining whether an entity is a CPSE or a non-CPSE, the first step is to identify whether the entity is controlled by the government. If the entity is government-controlled, the next step is to determine the legal framework related to the establishment of the entity. Based on the content analysis performed in this study, three main types of public sector entities were identified: entities under the federal constitution and special laws, entities under state laws and special enactments, and entities under public corporations. Under public corporations, there are two types of entities: entities formed under statutory laws and non-statutory laws.

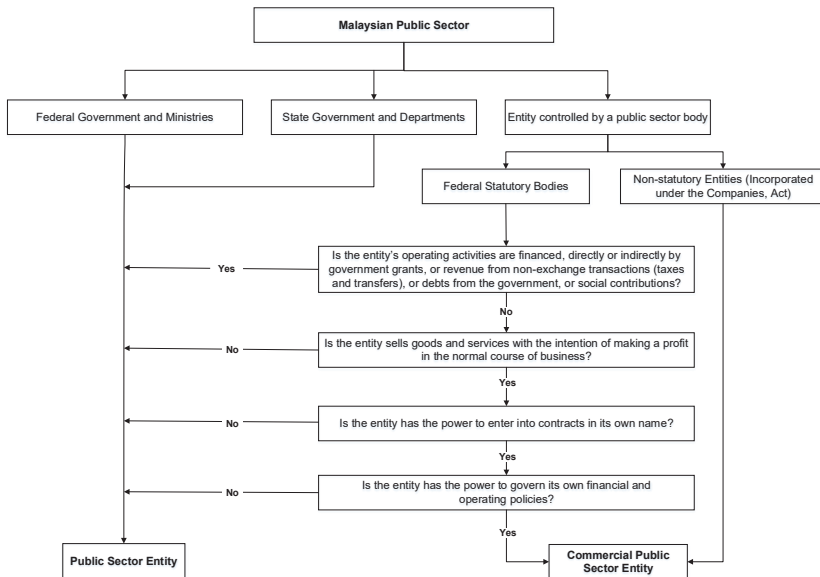


Figure 2: Classification of an Entity

Figure 2 posits that all entities formed under the federal government and ministries and entities under state governments and departments are non-CPSE and, therefore, governed under MPSAS. On the other hand, public corporation entities formed under non-statutory laws are confirmed as CPSE since they are governed under MASB. Therefore, they must adhere to MFRS or MPERS. The issue of determining whether a public sector entity is a CPSE or non-CPSE focuses on those entities that are formed under statutory laws, often in the form of Special Acts. The researchers identified whether these entities fulfil the criteria of a CPSE.

In determining whether an entity that is formed under statutory laws under the Special Acts is a CPSE, this study assesses four criteria. First, whether the entity relies on government funding is a going concern. If the entity is reliant on government funding, the entity is to be considered a non-CPSE. Nevertheless, if the answer is otherwise, the entity is possibly a CPSE. Nevertheless, the entity has to fulfil the three remaining criteria:

- i. The entity sells goods and services in the normal course of its business at a profit or full cost recovery.
- ii. The entity has the power to contract in its own name.
- iii. The entity has the power to set its own financial and operational policies.

If the entity fulfils all three criteria, the entity is considered a CPSE and, therefore, has to adhere to the MFRS or MPERS.

5.0 Conclusion

This study examines the issues related to the construction of the CPSE definition. The study's findings identified ten key issues surrounding the building of the CPSE definition in Malaysia. The ten issues are the legal identity of the entity, the controlling party, internationally recognised accounting standards for private companies, the future of MPSAS, threshold setting in categorising entities, application guidelines for accounting standards, profit distribution among entities, the mandate of the MASB, government funding, and establishment. The CPSE framework was derived by analysing these issues.

This study holds significance due to the fact that the primary consumers of financial reports and the objectives of financial reporting vary between profit-driven and service-oriented organisations. Misclassification of a public sector entity may result in the implementation of financial reporting standards that contain unsuitable obligations. The unsuitable obligations may compromise the integrity of the financial data for consumers, thereby obstructing its capacity to fulfil the goals of financial reporting.

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