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Accounting Systems and Practice in Pre-New Public Management Era of Malaysian Local Government: A Historical Case Study of Kota Kinabalu Municipal Council-1979-1999

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Abstract

This paper provides an overview of the Kota Kinabalu Municipal Council (at present it is now known as Kota Kinabalu City Hall (KKCH) after the elevation of status in year 2000) through the years 1979 to 1999. The main focused is to highlight the accounting systems and practice of KKMC during those years. Qualitative method was employed with the data collection mainly used the semi-structured interviews, archival document and content analysis, participations and observations. The findings reveal that since elevated from the town board to municipal council status in 1979, KKMC as the governing body for the town of Kota Kinabalu, Sabah has not seen much differences in terms of its administration and financial management systems and practices but gradual changes were taking place. Overall, the use of management accounting as a tool for management in the process of planning, directing, controlling and organizing is very rare. The belief for KKMC existence as a body for providing the service and the guardian for the town of Kota Kinabalu at the most effective and efficient cost has been materialized with very little use of management accounting techniques and tools. Management accounting as a main language in the running of the management meetings at all levels has also been seen as unpopular and unnecessary.

Keywords: accounting, case study, local government, management, Malaysia

Introduction

This paper provides an overview of the Kota Kinabalu Municipal Council (at present it is now known as Kota Kinabalu City Hall (KKCH) after the elevation of status in year 2000) through the years 1979 to 1999. The chapter will describe the organizational structure, financial structure and the management control and accounting system of KKMC during those years. The description of these areas is important for two reasons. First, it will help to gain a deeper understanding of the baseline of the change before the KKMC elevated to KKCH in the year 2000. Second, the description will provide a better understanding of the quantum of changes both in management control and accounting system and practices in KKCH for any research that looks at this context for any timeframe beyond the year 2000.

Literature Review on Previous Studies on Management Accounting Change in Local Government

Pendlebury (1994) highlights that majority of the studies of the management accounting in local governments have been focused on the processes of budget preparation and budgetary control (i.e. Talukdar, 2020). His study on the UK's local authorities demonstrates that the need for changes especially in the local government's management information systems is driven by the impacts of financial constraints in 1980s and the changing nature in the public sector service delivery. However, these factors show little impact on the management accounting systems and practices in the local government. Instead, the findings show that market testing and devolved budgeting had much more discernible effect in comparison.

The study by Lapsley and Pallot (2000) of the comparative studies of management accounting change between countries is one example of the first early work of its kind. Lapsley and Pallot (2000) study reveals that there is obvious difference of the practice of management accounting change in local governments in United Kingdom (exactly in Scotland) and in New Zealand despite the fact that both countries shared similar characteristics particularly in respect of political and administration systems. In New Zealand, management accounting tools have been used as a vehicle to bring the changes in the organization, whereas in the United Kingdom the management has been adopting and imitating other successful and modern organization's structures and management style to attenuate the diffusion of management accounting change in the organization change process.

As has been eluded previously, one of the main reasons in the reform and reorganization activities in the public sector organizations including local governments is to achieve efficacy, transparency, accountability and efficiency in public service delivery (see Goddard, 2005a & 2005b). In this context, innovation is created and emerged in public service delivery activities through the outsourcing of activities in local government. For example, Smith et al. (2005) argue that outsourcing activities will generally create room for restructuring. The restructuring will eventually lead towards the changes in management accounting activities. Therefore, according to Smith et al. (2005), management accounting change is imperative to achieve the effective and efficient outsourcing activities in local government context. However, Smith's et al. (2005) study does not show on how this interaction between management accounting change and outsourcing activities takes place in the local government organizational change process. They urge for further investigation in this context in the future to enrich the findings and understanding of how management accounting change takes place with this respect.

Caccia and Steccolini's (2006) study on management accounting change in local government in Italy attempted to explain the pattern of changes and the forces that permeate the changes. They discovered that management accounting change in local government in Italy occurred in the form of incremental and evolutionary way. The pattern of changes is also influenced and shaped by the radical and discontinuous events that come along during the change process. Caccia and Steccolini (2006) identified those radical events such as financial crisis and the introduction of new laws from the external institutions. Whereas, discontinuous events are always used by interested party to legitimize their pre-planned change effort to introduce changes in their organization. Their study also shows that single key player's role such as chief financial officer is critical to create successful management accounting change effort in the organization. Their study also supports the findings by Bogt and Helden (2000) where gap and resistance towards change emerge out of the change effort and process due to lack of communication among the relevant parties.

With respect to the role of the actors in the local government context, there have been many studies investigating the role of key actors in the management accounting change process, and most of these studies show that key actors play significant roles in the organization management accounting change process (Alim & Siswanto, 2018; Indriani, Mulyany, Nadirsyah & Munandar, 2018; Pessina et al., 2008; Caccia & Steccolini, 2006). These include Chief Financial Officer, CFO (Pessina et al., 2008; Caccia & Steccolini, 2006) and the manager (Gurd, 2008).

Pessina et al. (2008) argue that the most important key actor in the local government organization responsible to adopt and enforce management accounting change is the Chief Financial Officer. They argue that the innovation capacity belongs to CFO, his or her academic and professional background, his or her social network, and his or her persistence towards the implementation of changes are the characteristics that will create the successful changes. Caccia and Steccolini (2006) argue that the innovation in financial management and accounting techniques, the need to communicate, the need for changes, beside the strong determination for the change are the examples of most vital elements in order to realize the successful management accounting change in an organization. Therefore, they further argue that CFO both as a position and a person is the right force that possesses the needed capability to carry out the leading movement for change.

Methodology

To study the complexity, richness and contextual setting of the intended study, the author employs the qualitative explanatory case study approach (i.e. Lobe, Morgan & Hoffman, 2021). As a matter of definition, the author adopts Seawright and Gerring's (2008) and Yin's (2003) definition of what a case study is. According to them, a case study can be defined as "*the intensive (qualitative and quantitative) analysis of a single unit or a small number of units (the cases), where the researcher's goal is to understand a larger class of similar units (a population of cases)*". In addition to this definition, Gerring's (2004) view is also relevant, who defines case study as "*an intensive study of a single unit with an aim to generalize across a larger set of units*".

The primary data was collected through the semi-structured interview. The interviews were conducted in such a way to enable the respondent gain more freedom to express their experiences, emphases, (Innes & Mitchell, 1990) and opinions on topic being questioned (Hassan, 2008; Andon et al., 2007) through a free-flowing discussion (Hassan, 2008), while at the same time being focused on the primary subject matter. There were 52 interviews were conducted involving KKCH staff from various levels.

To obtain good quality of information, this research also employed content or documentation (Hassan, 2008; Ransom, Williams, Keyes & Hall, 2021) analysis to supplement the information gathered in the interview process (Andon et al., 2007), which is an important element to ensure the reliability and verifiability of the data collected by other means (Rowe et al., 2008). On top of that, the researcher was also participated in several routine activities in KKCH including the meetings and informal discussions in order to enrich the quality of data collected. Some observations on the KKCH staff on their natural settings of carrying out their daily jobs were also performed to further enrich the quality of data collected (Seetharaman, 2016).

Result

Organizational Structure

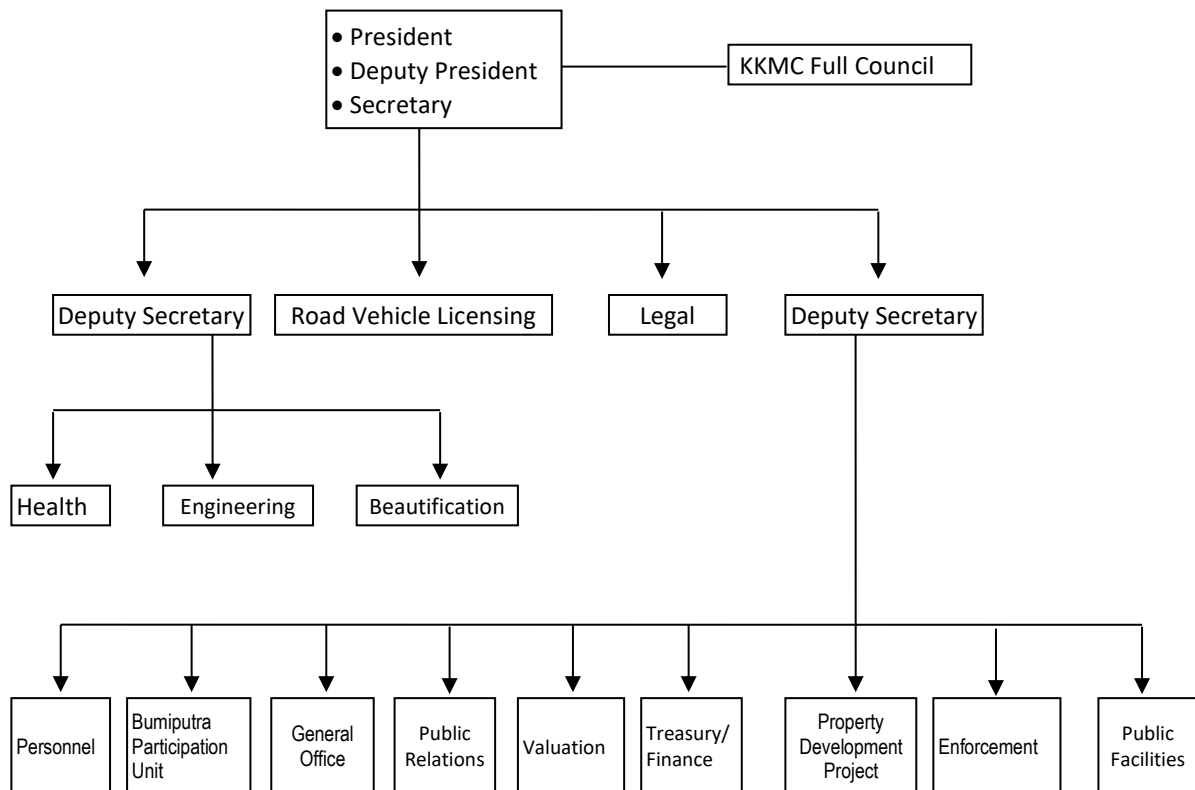
KKMC is one of the government agencies responsible for the administration of the town of Kota Kinabalu, Sabah. In 1979, its status was elevated from the town board to municipal status. The organizational structure of KKMC composed of five levels that complement each other as a single functional unit. These levels composed of the following:

- 1 President
- 2 Executive Staff
- 3 Departments
- 4 Sections
- 5 Employees

From the bottom level, the employees function as a supporting unit to the sections. These employees were placed in specific sections which would later support the departments. The department which is headed by the head of department (HOD) or executive officer is responsible to the President. The president is responsible for overseer of the daily activities of the KKMC. At the same time, the president works closely with the board of councillors on matters pertaining to the policy making, future development, and long term planning of the KKMC.

The appointment of the President and Secretary is provided in accordance with the Sabah Local Governance Ordinance of 1961. The President and the Secretary can be the same person, which was the case in KKMC. The state chief minister is responsible for the appointment of the president and the secretary through the Sabah Ministry of Local Government and Housing (SMLGH). The president together with the deputies of the president and the secretary and their assistants are formed as a corporate body for the KKMC, called the Executive or Administrative Group. Its function for administering the affairs of the Kota Kinabalu town is also complemented by the board of councillors. There were twenty two board members appointed by the SMLGH. The appointment for these members is also provided in the SLGO 1961. The following figure shows the organizational structure of KKMC and its interrelationship with the Board of Councillors:

Figure 1: The organizational structure of KKMC



Over the years of the administration of the KKMC, it had witnessed a number of modifications to its organizational structure either through the addition of new departments, the merger or splitting of departments, or the introduction of new units or sections.

The Executive Group

The executive group comprises of the President and his/her personal assistant, the two deputy presidents with their personal assistants, the secretary, the auditor and their assistants. These top ranked staff works as a group responsible for the administration of the policies and the daily operation of the municipal government. The president is the chief administrative officer for the town of Kota Kinabalu.

The office of the president is responsible for coordinating, directing, and reviewing the routine activities of all municipal operations.

The KKMC Council

As has been eluded in the previous section, the administration and overseer of the KKMC policy making and operation were under the responsibility of the executive group and the board of councillors. The appointment of the board of councillors by the Governor of the Sabah State is under the advice and nomination by the chief minister of Sabah with the assistance of the office of SMLGH. Typically, these appointed councillors are those prominent representatives of the people in Kota Kinabalu town who possess strong and diverse influential background in commerce and public sector expertise in education and profession. Their main function is to make decision pertaining to the long term policies and development of KKMC, primarily aimed at the benefitting the residents. This is done through the interaction of the Executive Staff of KKMC in the KKMC Full Council meeting. The Council is composed of the Executive staff and the appointed councillors. It separates into thirteen committees with respective portfolio. These committees are:

- 1 Chairman Committee
- 2 Finance and General Purpose Committee
- 3 Staff Committee
- 4 Traffic Circulation and Street Light Committee
- 5 Tender Board
- 6 Licensing Committee
- 7 Public Health Committee
- 8 Enforcement Committee
- 9 Building Plans Committee
- 10 Urban Beautification Committee
- 11 Rural Development Committee
- 12 Action and Coordination Committee
- 13 Town Planning Committee

Basically, each of the council committee represents the respective department in the KKMC. The meeting of the Full Council is scheduled to take place every calendar month. According to one of the interviewees, the main function of the council committee apart from making long term planning is to make decisions on operational activities especially activities involving the spending of KKMC funds. The departments should not undertake any activity on their own without prior approval of the committee which is usually dominated by the councillor himself. Therefore, the decision whether or not to undertake any kind of project or activity, and the financial commitment incurred by the projects by the department concerned must wait up to a month where the decision can only be made through the council committee meeting.

The Head of Departments and the Technocrats

The matters pertaining to the governance of the staff and technocrats served by the KKMC are prescribed in Chapter 7 of the Sabah Local Government Ordinance 1961 (SLGO, 1961). Every local government in Sabah is required to appoint an executive officer and a treasurer of who can be the same person. The appointment and dismissal of any executive officer however must go through the consent of the minister in the SMLGH. The amount of salary granted for such an officer must also be approved by the ministry concerned. Overall, the management of staff and technocrats of the KKMC with regards to the policy, tenure and development is under the jurisdiction of the Ministry of SMLGH. One of the directors said:

'before this (during KKMC time) all matters must be referred to Sabah Ministry of Local Government and Housing.. even simple thing like the overtime claim by the employees..'

The main function of the executive officers and the technocrats who are normally heading the departments is to implement the policies and the projects that have been approved in their respective council committee. They are responsible for supporting the higher level management i.e. the executive group and board of councillors. The executive officer with all the staff in the department under his or her direction are not empowered to make any decisions involving the long term policies or projects especially when those policies and projects involve financial matters and the social welfare of the public. Therefore, the functions and responsibilities of the executive officers and technocrats in KKMC were very limited towards the implementation and daily operational activities. All the strategic and long term decisions were only carried out in the committee meetings and decided by the relevant councillors. One of the directors said:

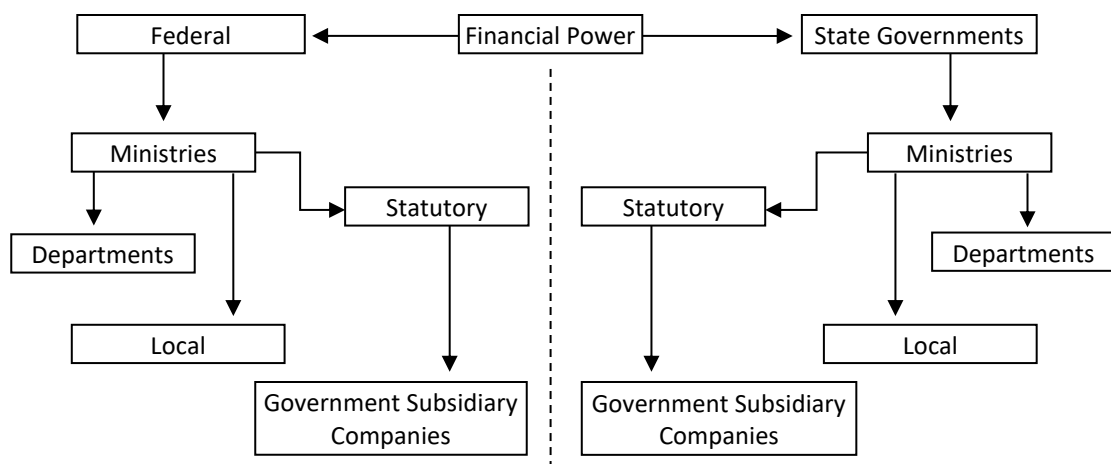
'if we want to decide on one issue, we need to bring it to the meeting first.. the meeting of the committee headed by the councillor. After that it will go to Full Council Meeting for endorsement.. only then we can forward to Sabah Ministry of Local Government and Housing. We can only proceed if the Ministry already approved'

According to one of the interviewees, although KKMC was subdivided into departments and units, during that time the departments were mixed and less structured and less focused with regards to their responsibilities and functions. This situation was caused mainly by the unclear objectives of those departments and lack of manpower as well.

The Financial Structure

The financial management of the government of Malaysia can be divided into two big parts. The first part involves the financial management at the federal level and the second part involves the financial management at the states level. The 1957 Federal Constitution of Malaysia prescribes the relationship of financial matters between the federal and the state governments. This relationship can be shown in the following figure 2 below:

Figure 2: Federal and State Government's Financial Relationship



The largest portion of the federal government's source of income is derived from taxes. Whereas, the state government sources of finance is mainly derived from the federal grants and the royalties from the natural sources such as timber and petroleum. At the state government level, the government funding from the federal and other sources will be channelled to the respective ministries through the Ministry of Finance also known as the treasury department. The Ministry of Finance is usually under the portfolio of the head of the state, the Chief Minister, and headed by State Secretary of Finance. At the federal level, the Ministry of Finance is under the purview of the Prime Minister. The KKMC's

financial affairs are placed under the purview of the Sabah Ministry of Local Government and Housing (SMLGH).

The KKMC Sources of Funds

The financial matters of KKMC are prescribed in Chapter VII of the SLGO 1961. Section 55 of the Ordinance also prescribes the sources of revenue for the local government. Basically, the sources of revenue for the local government are derived from self-collections and the grants from the state and federal governments. Section 55 of the Ordinance empowered KKMC to collect revenues in the forms of property rates, conservancy, summons, fees, licenses, rents, interest and other revenue from property and development. Whenever necessary, the state and federal government will provide additional grant for KKMC especially for the physical development of public utilities such as roads and road maintenance.

Although KKMC has the autonomy to collect and keep its traditional revenue as stated in Chapter VII of the Ordinance, it is however necessary for KKMC to get the approval from the SMLGH before spending any of the KKMC's funds.

Management Control and Accounting Practices in KKMC

Although KKMC is a body of local authority in which its existence and sources of power are provided by the SLGO 1961 and its by-laws; its administration and management control systems and practice were more or less similar to other government agencies in Malaysia. The big initiative undertaken by the government during the Mahathir's time as a prime minister in 1990s to liberate and to deregulate the government agencies with the main purpose to delegate more autonomy with the hope to reduce bureaucracy and increase public service efficiency seems to be ambiguous at the micro level (Hussain & Brahim, 2006). This is not surprising in the case of KKMC which is supposed to be more independent and autonomous with respect to its administration and financial arrangements. The local authorities in Malaysia are highly related to the federal government due to the fact that when the Federal Constitution of Malaysia came into effect in 1957 it provided more power and biasness in terms of administrative and legislative control over the local government entities. Besides that, the financial difficulty experienced by the vast majority of the local authorities in Malaysia has caused them to rely continuously on the federal government's financial support in the form of launching and annual grants. The financial assistance provided by the federal government to these local authorities in return has positioned the federal government to have more control over the local authorities (Norris, 1980). Eventually the local government in Malaysia became seen as a subordinate of the federal and state governments. Their main functions have been confined to materializing the higher level government functions at the local level apart from delivering their traditional functions of garbage collection and beautification of their local landscape.

Accounting Systems and Practices in KKMC (1979-1999)

This sub-section provides the overview of the management accounting systems and practices during the KKMC time from 1979 to 1999. This includes the budgetary process, performance evaluation system, managerial controls and tools, and the meeting arrangements during this twenty two year period. The discussion on the above mentioned subjects is important as it will provide the overview of the systems and practices of management accounting during that time. This will later provide a baseline for better comparison with the following ten year period at KKCH (2000-2009).

The general guidelines and provisions with respect to the financial matters and accounting systems of the KKMC are laid down in Part 7 of the SLGO 1961, section 53 to section 68. These sections prescribe among other things the power of KKMC to collect money, assess expenditures, examine the audited financial statements, prescribe the accounts to be kept, suggest the financial instructions to follow, and outline the responsibility for the minister of SMLGH with regards to KKMC financial arrangements. Whereas, the FILAS (1984) contains and prescribes in detail the guidelines and instructions for the KKMC with respect to the accounting standards, systems and practices to be

followed. The ninety two page FILAS (1984) comprises nine chapters which comprehensively lays down the procedures and guidelines of how the financial matters of KKMC are to be undertaken. The accounting system guidelines for KKMC is prescribed in Chapter Eight of the FILAS (1984) that includes definition and classification of accounts and books, terminology of financial statements, suggestion for the KKMC to adopt standard accounting principles and practices, accounting policies and many other relevant accounting related guidelines and prescriptions.

Like other government agencies in Malaysia in general, and in Sabah in particular, KKMC has been practising Cash Accounting system. This means that all the accounting records, summaries and the financial statements of the KKMC have been prepared based on the cash basis. This is confirmed by the director of Finance and Budget Department (FBD) who said:

'Like all other government agencies, we have been using the cash accounting system all this while..'

Beside the cash accounting system, the system is also supported by the manual system almost at all sections. The use of information technology or the computerized system is only used starting in late 1990s and only in the Payment Section of the FBD. This is mainly due to the limited funds to make the computerized systems available for the whole department. On top of that, most of the clerks involved in accounting information system of KKMC have been carrying out their job all this while using the manual system. According to the head of Payment Unit of the FBD:

'When I started to join KKMC, everything is done manually. That was in 1996. So I have insisted to be equipped with a computer to do my job and I got it... and only my section got it!'

The Budgetary Formulation Process: the technical aspects

Prior to the 1990s, all the government agencies at all levels in Malaysia (including all local authorities) had applied three types of budgeting systems. The first one is called Traditional Line-Item Budgeting System (TLIBS) that was in place since the independence day of Malaysia in 1957 and later replaced by Programme and Performance Budgeting System (PBBS) that was introduced in 1968. Due to some problems associated with the PBBS especially in terms of implementation of performance measurement and programme evaluation, it was later abolished and replaced by the Modified Budgeting System (MBS) in 1984 (Saleh, 2007). The MBS was designed with the main objectives being to upgrade the efficiency and promote better accountability among the public sector employees in Malaysia (Saleh, 2007; Siddiquee, 2006). The MBS is hoped to work in such a way that improves and modernises the process of resource allocation on the basis of performance; more devolution of authority with respect to budget empowerment; and incorporates result oriented and cost effective management.

With regards to KKMC, since 1984 it has been using the MBS as a basis for its budgeting systems and practices. Every year, the process of next year's budget preparation at the organization level starts when the circular is received from the SMLGH which usually takes place early in the year. The director of the FBD of KKMC will then issue a budget circular to all the HODs for the preparation of the next year's budget. The circular will indicate information about the need to prepare the budget at the departmental level, the deadline of submission of the department budget, the general guidelines for preparation, and the important policies and objectives that needed to be taken into consideration for the budget preparation. In general, the director of the FBD will require all the relevant departments and units to submit their final request of budget within one and a half month from the first circular of budget preparation.

At the department level, upon receiving the budget circular from the director of the FBD, each director is expected to prepare the budget based on the requirement of his or her department. Ideally, the budget preparation at the departmental level should take into consideration all the inputs in terms of resource requirements and the relevant budget information from all the units and relevant sections in that

department. However, in reality the preparation of the budget is only done by the director himself, or sometimes will only involve a few senior officers. According one of the interviewees:

'I still remember during that time (KKMC) that I was never asked anything about what I need for my unit... I was never involved in the preparation of the budget in this department. All I know is that the budget is only prepared by my director... I don't have any idea if he would ask anybody to help him in doing that (the budget)..'

Another interview with one of the directors also supports that the preparation of the budget at the departmental level is more towards 'ceremonial' purpose where budget is prepared for the sake of fulfilling the budget requirement by the higher level authority. According to him:

'During KKMC, the budget preparation was so easy, all I have to do is to increase the budget from last year. For example, I just put extra 10% from last year's total amount, and the budget is ready. It's been like that all this while. It depends on the FBD whether they have money or not, it's not my problem.'

A different story however was told in the other department about the involvement of subordinates in the preparation of the departmental budget. According to him, there is no difference between KKMC and KKCH when it comes to the way they prepare the budget request of estimate every year. He said:

'We have been doing this way (the budget estimation) all this while, there is no difference. Once the director received the circular from the FBD, he will let us know and required every unit in his department to prepare their own budget request. Once I have the order from my director, I will then have a meeting with my colleagues of what we need, how much, what projects to do, justifications and so on. So, I can say that the budget preparation is always the same for me..'

However, out of ten departments being investigated through these interviews, the author found that there is only one of the departments practising budget preparation which opens more involvement from the lower level employees in the process. The interview session with the former director of the FBD reveals that this is not a common phenomenon in the KKMC time. She admitted that as the director of the FBD of the KKMC, she is supposed to liaise and had at least a meeting with all the departments' concerns before signing the budget request for compilation. She is supposed to know every detail of the budget and the justification of each amount requested in the budget by each department. Start Here She said:

'I just compiled and signed the total budget from all the departments. I supposed to know the details including the objectives, projects and the justifications but I didn't do that because of the time constraint. I just didn't have enough time to do that. So, I presumed that the HOD would do what they supposed to do when preparing their budget... that is to have meeting/s with their subordinates, give clear objectives and justify them before they submit to me for compilation and endorsement by the President.' The President supposed to know the same thing from me as well, but he also didn't have enough time.. he just signed it before it goes to the full council meeting for endorsement...and then submitted to MLGH for approval.'

The next process in the budget preparation after the HOD has submitted it to the FBD is to compile and justify them. This work is the responsibility of the head of the FBD. As has been indicated earlier, the head of the FBD is supposed to discuss the budget details with the head of other departments before any compilation and justification for endorsement by the President in full council meetings. Once the budget is compiled and justified by the head of the FBD, she will bring the budget to the President and brief him on it. The budget will then be tabled and deliberated in the full council meeting where all the councillors will present and give their opinion and approval for the President to sign and endorse it. The final changes of the proposed budget request for KKMC are done at this stage.

Once the budget request is endorsed by a full council meeting and signed by the President it will then be sent to the Sabah Ministry of Local Government and Housing for another budget compilation with other agencies under the ministry. There will also be at least one meeting for budget deliberation between the representatives of KKMC with the SMLGH on the budget request. At the ministry level, the ministry will then finalize the allocation given to KKMC and other agencies under it. This allocation will be based on the total allocation given by the State Ministry of Finance to the ministry.

The final stage on the budget process at the KKMC level is to reallocate the allocation granted by the SMLGH. The head of the FBD will send a circular to every HOD about the final amount of budget allocation given to every department for next year's budget. At the departmental level, the HOD will take note of this for guideline to ensure that his department will only be spending within the limits allocated to him.

Overall, the budget process during the KKMC time is not really a big deal and the people involved in the preparation of the budget seems not to take it seriously, apart from having it as a baseline for spending limit purposes. For them the budget is just part of their yearly work routine that needs to be done every year. The former head of FBD once said:

'you know, most of the time all these HODs don't really bother of this budget preparation. They just requested one lump sum which is usually higher than what they supposed to ask. I know why, it's because they know that at the end of the day, it is the responsibility of the FBD that will decide for them how much money they need or be allocated. They know that... the actual allocation that they will get at the end of the day will far lower than what they requested..'

The Procurement and Spending Systems and Practices in KKMC

As has been eluded in the previous section, the financial matters of the KKMC are prescribed in the SLGO 1961, FILAS 1984 and the Treasury Instructions which are issued by the Sabah Finance Ministry from time to time. However, out of these three main sources for guidelines in the financial management of KKMC, the FILAS 1984 and the Sabah Treasury Instructions are the main sources for reference due their nature which prescribe the systems and intended practices in details. Whereas, the SLGO 1961, is more general in nature it is indeed complementing the former two sources on financial arrangement guidelines.

During the KKMC time, the procurement system practised by the organization was just a typical government system in Malaysia. The process of procurement is prescribed in detail in Chapter Five, FILAS 1984. According to one of the interviewees, if any department needs to buy or hire any assets, the department needs to submit their application to the FBD through the respective HOD. The head of the FBD will only decide to approve or not to approve the application after some consideration on issues like application, justification and approval by the President for procurement. According to one of the finance clerks:

'during the KKMC time we aware that we need to have proper documentation from the department concern whenever they ask for any procurement or spending, but normally they will just give us the amount they need and for what item that is in the form of memo, and sometime with the relevant forms. The problem is most of the time they will not provide sufficient justification for that. Even the forms were also so simple, not like now. So what we did is just to accept it and place it under any VOT of that department. Otherwise we will ask them for further information about it..'

When the application for the procurement or spending is approved, then the FBD will look for the potential suppliers for the item needed by the department. The FBD will call for the quotation from the registered suppliers and to have at least three quotations, with each being from different suppliers. The

FILAS 1984 however prescribed clearly that for quotation purposes, the KKMC must have at least five quotations whenever possible, each from different suppliers. Generally and most of the time during the MPKK time, the decision of which supplier to choose is based on which supplier that quotes for the lowest price. As one of the interviewees said:

'We chose the supplier based on the lowest price. That's all.'

Basically, it is very clear that in KKMC time, all the financial matters of the KKMC are placed on the shoulders of the head of the FBD. It is the FBD that decides every financial matter of the KKMC right from the approval of the procurement and spending up to the final records of that transaction. According to the director of the FBD:

'during the KKMC's time, all these (financial matters) were controlled alone by the FBD. So imagine, there were lots of departments during the KKMC time had to refer to FBD.'

The other interviewee who is a clerk in the other department said:

'in KKMC time, if I need money to pay for the processing fee of the land application, I just need to write a memo and make it signed by our HOD and later sent it to the FBD. They will give me cash or cheque for that.'

The Spending Mentality

The government agencies at all levels have always been reminded and encouraged to practise about the concept of government prudent spending. The calls for the prudent spending in government agencies will usually come from either state or federal government. These can be in the form of formal circulars such as Treasury Instructions and also in form of informal talks and speeches by the relevant ministers in both levels of the upper government. All the government agencies are expected to spend the allocation given to them in the most economical fashion. However, at the organizational and departmental level of KKMC, the actual practices were somehow mixed.

The former head of FBD once said:

'I will always inform them the amount that they have left to spend. The budget is there to make sure that they don't spend more than what they have been allocated with. I expect them to prioritize their needs..'

One of the mechanisms that the KKMC practised with respect to the financial arrangement is that the any department in KKMC only need to request from the FBD every time they need to do the spending, up to the total yearly limit that have been allocated to them. The final power to approve and commit the spending is in the hand of the head of the FBD but up to a certain amount only. Anything above the capacity of the HOD will go further to the Deputy President or the President of KKMC for approval. Therefore, the head of the FBD is the master mind for the revenue collection and spending activities of KKMC. The result of this system is that it is the head of the FBD that will be answerable and accountable with respect to the financial matters of the KKMC. As a result, the gap is there between the FBD and other departments in KKMC with respect to financial arrangements, especially with regard to the spending mentality. The FBD's mentality and the other departments' mentality in spending money seem to be going in different directions.

From the perspective of the head of the FBD, an interview with one of the directors during the KKMC time reveals that the sense of responsibility in money spending is not cost effective and not cost efficient in that time. He said:

'During KKMC time, when any individual or group of staff applies to attend for any course or seminar whether within the country or to overseas for any justified purpose relevant to his or her work, I will just recommend it to be approved by the FBD. We don't really concern about the cost, as long we have the money to spend. Once the budget is finished, we just let the FBD to think about it. Let them find the money.'

The view by the director of the FBD has also been confirmed by one of the interviewees who is a clerk in another department who has already been with KKMC for more than 27 years. He said:

'Before this (during KKMC time) I had never came across any advice or any concern by anyone about reducing cost or to spend wisely. I know why that's happened....because we just rely financially on the state government..'

Another clerk in the other department also said:

'yes... in KKMC time I just asked from FBD if I need money for the application of land for KKMC. I don't have to feel worry about money or to spend it... because all you need to do is just to ask from them (FBD).'

One of the directors who has been with the organization since the early KKMC time believes that over reliance on the councillors' system and the state government financial assistance makes the spending mentality actually less cost effective during KKMC time. He said:

'in the past, we always and too much depend on the councillors system. There's always be a thinking like 'oh....don't worry... the state government will always provide'..'

Another interviewee also confirms the typical spending mentality during the KKMC time which it less concerned with the cost involved in carrying out their jobs. She said:

'My work uses a lot of papers. During KKMC time I don't have to worry about using papers as much as I like because I could easily get it from the FBD. I didn't really care so much about the cost of the papers I used that time.'

According to one of the interviewees, another factor that creates this kind of mentality of spending is that during the KKMC time the management only focused on the public service efficiency in the form of quick response to the public needs. Therefore, most of the departments will spend based on the concept of 'first come, first served'. Every time there is a requirement to do a project such as road maintenance, grass cutting and sewerage failure that comes through complaints and other means, the department concerned will immediately respond to it as long as they have the money and resources to carry it out. The problem arises when the department concerned has already used up their ceiling budgeted allocation and there is the urgency to respond to the public needs or complaints. One of the interviewees in the FBD said:

'every time they have finished with their annual allocated fund, and the complains are still coming, they (the department concerned) will always say that they can't do anything about it because they are not given enough allocation by the FBD. They will always blame us, or the President. By right, they should know how to prioritize their projects in order to avoid that.'

The Revenue Collection Systems and Practices in KKMC

The power to collect revenue for KKMC is provided in Section 55, Part Seven of SLGO 1961. The sources of revenue are in the form of property rates, rent, sale of property, levy, licensing fees, fines

and state and federal government grants. On the other hand, Chapter Five of the FILAS 1984 provides the guideline on how the KKMC should enter into a contract with a third party for generating revenue. The FILAS 1984 states:

'.....in the selling, leasing and renting out of the Council's own asset and services... Since the Council is a public body, all transactions must necessarily be governed by the following objectives: i. Accountability; and, ii. Economy, efficiency and effectiveness..'

Although Chapter Five of FILAS 1984 prescribed in detail about the procurement or spending systems of KKMC for the revenue collection systems the guideline is limited and superficial in nature. For example, FILAS 1984 only stress on the detail procedure for entering a contract and stresses that any KKMC officer empowered for carrying out the duty must adhere to the objectives laid down by the FILAS 1984. However, it does not prescribe what the recommended financial or accounting tools that should be employed to assess the contract for revenue collection that can ensure the accountability, economy, efficiency and effectiveness of the contract is achieved.

According to one of the interviewees:

'I heard that there was no specific tools they used when they make a contract for making revenue from rent of our properties, or in selling them. What I know is that there was sort of magic formula they used that time. For example, the third party will offer us 30% of from their monthly income'

The interview with the director of the FBD reveals that in entering the contract for renting or selling out the property of KKMC, there was actually a simple management accounting tools used that time which is the simple cash flow statement for the period covered in the project, and the simple return on investment for every project undertaken. He said:

'I have never heard about any magic formula used in making the decision whether or not we should accept the project or renting out of our properties. But I am quite sure that we used.. definitely we must use cash flow analysis and simple ROI to see whether or not the project is good for us'

Further investigation with the other director reveals that during KKMC time the officer or the committee in charge for evaluating whether the project or the contract is economical or cost effective for the KKMC did not seem too concerned about putting the KKMC in an advantageous position for contracts for renting out the KKMC's properties. According to this director:

'you just wonder, one case in KKMC time, how come we entered into a project renting out our 150 acres of City land for only RM1,000 per month!. You don't have to be an accountant or a business man to decide whether or not that RM1,000 is a good deal for KKMC. You know how much money you can collect from every restaurant that operates in that land..or how much money you can make if you transform it into other business centre. I am really disappointed with this, and I am going to review the agreement again'

Although the head of the FBD during the KKMC time has the responsibility to advise on matters pertaining whether or not the project is in the best financial advantage for KKMC, it shows that the use of management accounting tools for decision making is only limited to simple cash flow analysis and simple ROI only.

Receivables Management and Collection

One of the major concerns during the KKMC time is the growing amount of uncollectible from receivables especially given the rates of revenue from the taxpayers. According to the interviewees who are aware of the arrears of the collection of KKMC, they said the arrears have been there ever

since the early days KKMC is in operation. They further highlighted that it becomes higher and higher from year to year. Although KKMC through its Collection Unit which is under the FBD has been struggling to recover the amount, it is however till the end of KKMC term still very high with the amount of uncollectible still increasing and staggering at about almost forty percent of the total yearly revenue of KKMC.

With respect to the revenue from property, the revenue collection process of KKMC starts when the Valuation Department receives the Occupancy Certificate (OC) list from the SMLGH. The OC will be the source of information for the Valuation Department to follow up on actions such as locating the newly erected properties, the size of properties and the monthly rates payable by the owner of the properties to KKMC. Once the process of finalizing the rates payable by the owner is complete, KKMC will issue and send the rates bill to the postal address of the owner showing the due date and other relevant details including the amount for a three month period. The owner will be expected to pay the total amount at any post office or to the KKMC headquarters office within the time given by KKMC.

In the case where the owner fails to pay the amount stated in the bill partially or in full by the due date and after the grace period, the Collection Unit will issue the first notice to the owner at the registered postal address using the Registered Mail provided by the Post of Malaysia. If there is no follow up action by the owner after time given has elapsed the second notice of reminder will be sent out again through the same procedure. The final notice with the reminder of legal action will finally be sent to the property's owner if there is no follow up action after the grace period stated in the second notice. Eventually, if there is no further action again by the property's owner after the final notice the Collection Unit will proceed with the legal procedure. Although KKMC has its own Legal Department its function is just limited to the advisory roles only in matters pertaining to general legal aspects of KKMC. The legal action for default rates payers are the responsibility of the appointed external private legal firm.

The appointed external private legal firm will be carrying out the legal action for the cases submitted by KKMC to them. At this point, all these rate payers become the complete responsibility of this legal firm. The only thing relevant to KKMC about these rate payers is when the legal firm succeeded in collecting money from them then KKMC will be informed and due amount of money will be paid to this legal firm. Basically, with respect to the financial arrangement of these default rate payers, all the costs associated with the recovery process of legal action will be borne by KKMC. On top of that, the legal firm will be paid with the commission based on certain percentage agreed between them and KKMC beforehand.

Despite the fact that every measure including the legal procedures have been undertaken to deal with the arrears uncollectible rates, KKMC was still considered not doing quite enough about this even up to the days before becoming the City. According to the one of senior accountants in KKMC:

'I heard about these arrears of uncollectible rates revenue even before I joined this organization. They said that every time the director of the FBD presented the financial reports of KKMC in the meeting, they will always ask about this (the receivable arrears). It's become a headache.'

The Performance Measurement System in KKMC

In terms of the objectives, procedures and process, the performance measurement system (PMS) in KKMC time is exactly the same as what is being practiced in other government agencies in the state of Sabah or in the whole country of Malaysia. As has been stated in the previous sections, KKMC is just a typical government agency in Malaysia. PMS in KKMC can be viewed from three levels. The first is at the organizational level as a whole, the second is at the departmental level such as Valuation Department level, and third is at the individual level such as the individual employee performance measurement.

Organizational Performance

At the organizational level, the backbone of the PMS is the budget itself. In Malaysia, budget is considered as a tool for creating the contractual agreement between the state or federal governments and the government agencies. The government agencies are expected to utilize the yearly fund allocated to them to implement all the projects in tandem with the government directions, with the objectives of achieving the most efficient, effective and economical public service deliveries with every penny spent. Therefore, it is the responsibility of every government agency to provide annual financial reports in the form of statements of revenues and expenditures, supplemented with the relevant information on the projects or activities that have been implemented throughout the year.

With respect to KKMC, as one of the agencies under the SMLGH, the performance of KKMC lies on how much it has adhered to budget or allocated money in carrying out its functions throughout the year. Although there is no clear guideline of recognising whether KKMC as an organization is doing good or not (in terms of performance), it is generally accepted that any government agency that spends less or higher than the allocated amount is considered not performing well, and therefore subject to query by higher responsible government bodies i.e. Auditor General and SMLGH. The audited financial statements prepared by the KKMC are the main source of documents that show the performance of KKMC. Even before the audited financial statements are ready for submission to SMLGH, KKMC will be required to provide the last year's actual and budgeted performance that contains the information on revenues and expenditures when KKMC is preparing the current year's budget request to SMLGH. Basically, the financial statements of KKMC are the only financial performance measurement appraisal prepared by KKMC.

Departmental Performance

At the departmental or divisional level, the PMS is much likely the same as the organizational level system but on a much smaller scale. Every year the FBD will prepare the financial reports with the contents derived from the total revenues and expenditures throughout the year from all departments or divisions. One particular point which is important to highlight here is that the performance of a department is not given much attention on how many projects have been completed or how much revenue they have collected, but much on how much money they have spent in the previous year. According to one of the directors:

'it is important for me to make sure that the money spent is not exceeding the limit allocated for my department. At the same time, I will always make sure that I have spent all at the end of the year. If not, they will ask me why I have not spent, or why I spent more than my allocated amount. If you spent less, they will give much lesser in the next year if you don't spend all this year'

The other interview with another director which was one of the HODs in KKMC time reveals that even when his position is head of the department he didn't care or concern about the PMS of the department because there was no requirement for him to do so. The report about his performance is the responsibility of the head of the FBD which is presented in the Finance and General Purpose Committee. The report by the head of the FBD itself is not all about performance for any individual department but indirectly the financial spending of every department will be highlighted during that presentation. That was the only indirect performance measurement of the division during that time. Chien (1984) demonstrated that in Malaysia, most of the local authorities during the years of 1980s and 1990s used what he calls input-oriented budget which means they are only concerned with how much money they have been allocated to spend. This interviewee said:

'yes.. there was nothing I have to do in terms of preparing any report (performance report) on my department. There is nothing on report about the money you received, the responsibility...or about the optimum return (on that money)..'

According to the former KKMC head of FBD there was an initiative to establish and to practise non-financial standards for all departments but even up to the final days of KKMC these standards have never been materialized. The work standards are supposed to work as a performance appraisal for every department for their achievement in the forms of quality, quantity and customers satisfaction. According to her:

'Unfortunately we have been trying to get this (the work standards) since 1996...but cannot get because there is no continuity, it died naturally on the way. We didn't document it. Just verbal,... no one checked, nobody cares...so no problem'.

Apart from being neglected because nobody (especially the management team including the HODs) paid particular attention to the work standards, the interviewees reveal that no accountability and not much customer complaints about their performance made this initiative not implemented during KKMC time. As the former head of the FBD said:

'last time during the KKMC time, I think that our customer, our rate payers in particular, they are not as vocal as what we have today'.

Individual Performance

With regards to individual performance measurement, and in the context of the public sector of Malaysia, the PMS of government servants or employees has always been central to the major concern by the higher level government. It has also been under constant reform and modification since the independence of Malaysia in 1957 (see Siddiquee, 2006). Prior to 1992, the PMS of KKMC employees was based on seniority and centralized government test on individual performance. If there is no adverse report of the performance of any particular employee from the President of KKMC or the Board of Performance Evaluation, all the employees will automatically be awarded with linear salary increment every year. At the same time, if any non-officer level employee has passed the government test which is related to their work, they will be recommended for job promotion which is subject to approval by the Public Service Department of the state. On the other hand, the officer level employees will be promoted based on their seniority and proven good service record.

Starting from 1992, KKMC has employed the new performance measurement in replacement of the old linear automatic salary increment scheme with the New Remuneration Scheme (NRS), which is also applicable to all public sector employees throughout Malaysia at that time. The NRS is designed and introduced by the Public Service Department (PSD) of the government of Malaysia to further improve efficiency, effectiveness and accountability among the public servants. The main idea of the NRS is to introduce the concept of rewards in the form of salary increment and one-of monetary incentive payments with relation to the employees' performance or work achievement.

Ideally under the implementation concept of NRS, when the new calendar year begins in January, every employee in KKMC is expected to set a work target for the year. The work target is derived through the discussion of the individual employee with his or her immediate officer who is usually the HOD in KKMC. Any work target that has been set up and agreed becomes sort of agreement between the individual employee and KKMC. The work target will be reviewed in the middle of the year, and if any variance arises, the justification will be provided and the work target to be adjusted accordingly.

As has been prescribed by PSD of the government of Malaysia, the standard of work achievement of the target will be measured based on cost, quantity, quality and time (Ahmad and Ali, 2004). However, during the KKMC time, the standard target has never been objectively stated, and the cost does not seem to be part of the standard of targets. One of the head of units in one department said:

'When I joined this organization in 2001, among the first thing that I was required to do is to carry out a research on the performance evaluation system, and required to submit it to the management. I found out, most of the work achievement

awarded is just like rubbish. The officer in charge to give the mark just put whatever they like..if they don't like you then he or she will give you bad mark... and I also found out that good marks are only given mostly to the officers only!

The findings of the research carried out by the above mentioned interviewee is in line with the findings by other research that highlighted the subjectivity element embedded in the NRS performance evaluation system (Siddiquee, 2006). Siddiquee highlighted the one of the reasons the NRS was latter modified and replaced by another performance evaluation system is because of the uprising complaints from the public about the negative subjectivity element in the NRS itself.

By the end of the year, the employee needs to complete the self-assessment form and then submit it to the first rater officer (FRO). The performance of each employee will be assessed by the FRO who is usually the head of the department that the employee belongs to. Next, the FRO will forward the assessment to another higher rank officer called the second rater officer (SRO) to moderate the result of the performance assessment given by the FRO. The next step is to prepare the performance appraisal report by the performance appraisal committee and forward it to the Board of Salary Movement (BSM). The BSM will finalize the assessment and endorse the work achievement of the employee and determine the type of salary movement of the employee. Under the NRS system, work achievement of any employee can be classified as 'not satisfactory', 'good', 'satisfactory' and 'excellent'. Static achievement for being the worst and the lowest score will be given no salary increment. For 'good' achievement, the employee will be awarded with the one-step salary increment, followed by two-step salary increment for any employee who achieves the 'satisfactory' work achievement. Finally, the three-step salary increment will be awarded to those employees who excellently performed their job during the year.

However, an interview with one of the clerks responsible for the land application reveals that during KKMC time there was no mechanism for evaluation on her performance that takes into consideration the quantity of work completed with the given amount of cost incurred for that work. In KKMC time, there was no session for employees target in terms of dateline, quantity and the quality of her work. She said:

'For my case, there is no dateline of work,... no report on how much rent collected, .. no report on how much fees have been paid for the land application.... all is done by the FBD'

This interview shows that during KKMC time, although there is general guideline laid down by the Malaysia Public Service Department the full implementation at the lower level is rather dubious. The performance evaluation appraisal does not really take into full account the relevant elements of appraisal on each employee.

The Authorization, Meetings and Reporting Practices

During KKMC time which is based on the councillor system, there are two types of regular formal meetings that will take place once in a month. The first meeting is the committee meeting. Every month, each of the department under a specific committee is required to carry out a meeting which is headed by a councillor designated for that committee. For example, the Evaluation Department will be under the Evaluation Committee, and the councillor heading the committee is representing the public and usually has the minimum required knowledge, experience or expertise that relates to valuation of property. The second type of meeting will only involve the top management and all the councillors from each committee, this is called a Full Council Meeting. The Full Council Meeting is chaired by the President of KKMC. Other special purpose meetings will also take place at any time. For example, if KKMC participates in any big state events, then any ad-hoc committee will be set up to conduct its meeting for the participation. The meeting for the preparation and deliberation of budget request at the KKMC and departmental levels will also take place at any time during the year.

The Committee Meeting

The main purpose of the committee meeting is to formulate the long term policy that relates to the department concerned and also for decision making that pertains to the routine activities of the department. The meeting functions as the screening point and 'feeding unit' before any matters are forwarded to the next level, which is the Full Council Meeting for further consideration and endorsement.

The councillor for the committee has the full power to approve or reject any proposal regarding future projects, financial commitment or new policy during the committee meeting. The HOD and all the staff under any department in KKMC must not commit themselves to any future projects, financial commitment or new policy before they go through the committee meeting and approval is granted by the councillor. Basically, the main function of the HOD and all his or her employees apart from routine work, is just to carry out and implement the activities and policies that have only be initially approved by the councillor, or if needed through the Full Council meeting. According to one of the former HODs:

'during KKMC, all decisions must go through the councillor.. even for the overtime claim by the employee that only few dollars must go through the councillor before the claim can be paid'

Like other departments during KKMC time, The FBD which is under the Finance and General Purpose Committee will also carry out its meeting once a month. The purpose of the meeting is basically more or less the same like other committee meetings that involve other departments. However, the main issue presented during the Finance and General Purpose Committee meeting is about the financial matters of KKMC. The HOD will present KKMC financial matters such as how much funds are available up to date, the revenue collected since the last month, and the total money spend to date. Future predictions and forecasts of the KKMC's financial collection and spending will also be presented during the meeting.

The Full Council Meeting

Like the committee meeting, the Full Council meeting will also take place once every month. The main objectives of the meeting are to finalize and endorse the matters forwarded by the department through the committee meeting. Apart from these, the meeting also become the medium to formulate the strategic planning for KKMC and also for discussing the matters pertaining to the long term policy for KKMC as a whole. The meeting will be chaired by the President of KKMC and also attended by the councillor from each committee. Although the President is the head of KKMC, any proposal put forward during the meeting will only be approved if all or if the majority of councillors are in favour of the proposal. The Full Council meeting will also function as the 'feeding unit' for higher level authority i.e. the SMLGH, and the state. Any matters that need the attention or approval by these two higher governing bodies will be forwarded through the Full Council meeting.

The Departmental Meeting

The department meeting is a meeting that will only involve all employees that belong to a particular department and typically will be chaired by the head of the department. However during the KKMC time, the meeting at the department level only rarely takes place or even does not exist. According to one of the interviewees who is a general clerk during KKMC time:

'during KKMC time, the department meeting is very rare.. not like now'

Another interviewee who has been in KKMC since 1984 said:

'in KKMC time the situation was different.... There was no meeting (department)'

The meeting at the departmental level seems to be a meeting that is based 'on demand' that relies on whether the HOD wants to do it or not. The focus of the contents of the meeting is also more general in nature. According to one interviewee:

'during the meeting, the HOD mostly will focus on general things such as our routine work, service delivery and so on... nothing about money or costs..'

Concluding Words

Since elevated from the town board to municipal council status in 1979, KKMC as the governing body for the town of Kota Kinabalu, Sabah has not seen much differences in terms of its administration and financial management systems and practices. Like other typical government agencies in Malaysia, KKMC has always been operating with a high bureaucratic system, relatively slow in decision making, less cost effective and efficient public service delivery systems. Like the vast majority of the local authorities across the country, KKMC's main problem is its never ending story of financial difficulties to achieve its main function as the provider of public service to the people of Kota Kinabalu at the most effective and efficient manner. With relation to the Laughlin's (1991) Organizational Change framework, it can be said that KKCH at this moment was in undisturbed situation where KKCH tried to maintain its status quo and will always 'rebut' any disturbance from the outside. Furthermore, the *interpretive scheme* of KKCH was bond strongly to the belief that KKCH is only one of the typical government agencies.

The investigation shows that three main factors can be associated with this situation. First, the organizational structure of KKMC which is based on the councillor system has made KKMC rely too much on the councillor in carrying out their activities which eventually lead to a comparatively poor decision making process, slow pace and independent and incoherent organizational and departmental activities. Second, the old style of management control system which is based on a top down centralized system has created stagnant poor performance among the employees. For example, in the budget request preparation, the lower level employees are not directly involved but it's the HOD to decide on what amount and what activities are budgeted for in the coming year. This management style which places very little accountability at the lower level management has eventually promoted less innovation and creativity among the employees at the lower level in carrying out their duties. Third, despite the fact that every employee in KKMC was aware of the KKMC main cause for existence which is to serve the public, the absence of a clear vision and mission of KKMC, however, have led each department, unit and employee to perform their duty with less focus and unclear objective.

The accounting system has always been in a manual form that is more on labour intensive approach. Despite the recommendation from the external auditor and the Sabah Finance Ministry for the adoption of a commercial accounting system such as accrual accounting, KKMC has always been practicing the cash basis of accounting. Lack of commercial accounting knowledge and practice, added with the employees unwillingness to change their 'status quo' of accounting system have made cash accounting become the only system being implemented in KKMC time.

Managerial accounting has been rarely used during the KKMC time. At the organizational level, the annual budget that contains the elements for collected revenue and expenditures has only been used mainly for control and organizational and departmental performance evaluation purposes. For the HODs in KKMC, the annual budget has only been prepared for the sake of fulfilling the requirement by the FBD, and also as a medium for authorising the financial commitment.

Overall, the use of management accounting as a tool for management in the process of planning, directing, controlling and organizing is very rare. The belief for KKMC existence as a body for providing the service and the guardian for the town of Kota Kinabalu at the most effective and efficient cost has been materialized with very little use of management accounting techniques and tools. Management accounting as a main language in the running of the management meetings at all levels has also been seen as unpopular and unnecessary.

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