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# Theories Association on Public Accounts Committees (PACs) of Malaysia: An Exploratory Analysis into its Role and Establishment

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## Abstract

Of the three legislature's functions, unlike representation and law-making, oversight is particularly related to PACs. As a supposedly strong committee of legislature, PACs can emerge as a potential solution to the need of the State Legislative Assemblies (SLAs) to monitor the financial conducts of the state governments. However, within the Malaysian context, much about the related situations is not known due to limited exploration on the matter at states level. Focus has probably been more directed towards PAC at federal level as issues under purview at that level are more likely to capture public concerns and media interests. Thus, this paper attempts an exploration of states' PAC practices, and associating them with some theoretical concepts in order to illuminate the current state of affairs. It seems that PACs' institutional designs and capacity building are among factors to be improved to promote state PACs' effectiveness. Such information gives this paper a knowledge base to launch further inquiries into future research initiatives regarding the topic.

**Keywords:** Public Sector Accounting, Accountability, Public Accounts Committees, Government, Governance

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## 1. INTRODUCTION

Generally, three functions common to parliaments are representation, law makings, and also oversight of government spending and performance. The third function, promotes the establishment of oversight by parliamentary committees such as the Public Accounts Committee (PAC). Studies have shown that systems of government influence the types and roles of committees in different legislatures (Ward, 1959; Bibby, 1966; Rosenthal, 1973; Adler & Lapinski, 1997; Wehner & Byanyima, 2004; Jones & Jacobs, 2005; Bringselius, 2015). For Commonwealth countries with parliamentary systems, PACs are commonly formed as a tool for ensuring transparency in the government operations (McGee, 2002; Stapenhurst, 2004; Saghal, 2005; Jones & Jacobs, 2005). They exist to hold the government to account for the lawfulness, efficiency as well as effectiveness with which public money were used (Glyn, 1987; Gay & Winetrobe, 2003; George, 2005). However, Johnson (2005) claimed that a common problem in developing countries is that legislatures (including PACs) are usually weaker than the executives or governments.

In Malaysia, more focus is directed towards PAC at federal level as issues under purview at that level are more likely to capture public concerns and media interests. In contrast, very limited information was available and accessible with regards to PACs at state level. Hence, exploration of states' PAC practices, linking them with some theoretical concepts were attempted in order to illuminate the current state of affairs. This paper is

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organized with discussion made central to the following topic on PAC: 1) the context under which PAC is operating; 2) the institutionalization of PAC covering institutional arrangements, activities and norms; and 3) organizational and operational issues concerning the PAC. An insightful understanding of such issues gives this paper a knowledge base to launch further inquiries into research initiatives regarding the topic.

## **2. THE CONTEXT UNDER WHICH THE PAC IS OPERATING**

The relationship between the State Legislative Assembly (SLA) particularly PAC, the state government and the Auditor General's Office (AGO) can be considered dynamic. As a result, any call for improvement in the function of PAC probably depends on how these parties view the functions of PAC. The function becomes especially critical given the enormous power exercised by the government in running the states (Krafchik & Wehner, 1999). Providing that the PAC is effectively fulfilling its functions, its work allows PAC members to pursue a line of questioning of state officials in more detail than possible during SLA sessions. Hence, PAC provides benefits for the internal organization of the SLA, including allowing members to discuss issues outside the formality of the SLA; to develop relationships with members from other parties; to provide knowledge within the SLA; and also to provide hearings that serve as a forum where members of the government are questioned.

Malaysian PACs institutionalization over time is obvious as PACs have been in place since the 1940s. Thus, clear expectations are anticipated regarding the operative parameters of PACs that are functioning within the context of the SLA as an established institution. Indicators of growing stability and consistency in the attributes of PAC include the committee structure, memberships, party composition, party ratios in committee membership as well as the autonomy and independence of the PAC (Olson & Crowther, 1998; Pelizzo & Stapenhurst, 2004). Without specifically referring to PACs, Olson and Crowther (1998) also purported that parliamentary committees' institutionalization have two distinct but intersecting attributes. First, they provide storage of expertise and knowledge, and second, they are the means for the expression of political power. Most writers looked at parliamentary committees closer to the policy formulation rather than committee with oversight functions such as PACs.

Formal legislative power of the SLA and PAC are defined in the Malaysian Federal Constitution 1957 and the Standing Orders of the SLA which outline the rules and the procedures. The SLA Standing Orders generally provide for the formation of PAC, procedures for establishing it and how much power is granted to them.

## **3. THE INSTITUTIONALIZATION OF PAC AS AN ORGANIZATION OF LEGISLATIVE INSTITUTION (SLA)**

Broadbent and Laughlin (2005) maintain that organizations are not self-determining systems but they are linked into wider societal systems. The societal system provides the societally-defined purposes for organizations' existence. The Federal Constitution 1957 of Malaysia and the institutions namely legislative, executive and judiciary which it establishes tend to reflect these linkages. The SLA at large and PAC in particular are legislative organizations that have a degree of protection, they could not be abolished nor have their functions altered without the consent of Federal and State Constitutions.

The first function of SLA is representation, materialized through the process of elections which reflects the diversity of individuals and group within society at large. In order to establish and maintain order, SLA serves the function of law-making, making rules and laws by which society or a state is governed. Within the organization of SLA, PAC is a sub-organization set up to steer, guide and to some extent, regulate the behaviour of other societal organizations. In relation to that, the third function of SLA is oversight and this "check and balance" function has the PAC oversees the state government's spending and performance.

As organizations are seen as a creation of a societally generated expansive lifeworld (Habermas, 1986; Broadbent et al., 2001; Broadbent & Laughlin, 2005), the behaviour patterns of organizations and institutions are uncertain due to them having their own respective life worlds, steering process and societal organization systems (Broadbent et al., 2001; Broadbent & Laughlin, 2005). With these elements constituting society as a whole, there are two outcomes of such situation. First, guided by steering organs and lifeworld values, organizational resistance may exist when the two factors coincide or conflicted with each other (Broadbent et al., 2001). Second, instead of lifeworld values being influential, environmental forces may produce normalizing effect rather than resistance within organizations.

In practice, the public usually find it efficient and convenient to accept rules constraining and governing their socio-political interaction. However, politicians for example once elected, could not be expected to simply change their attitudes and turn into passive, obedience and attentive servants of the public. Mueller (1989) in fact, suggested that the elected members tend to remain rational, egoistic utility maximizers to make the most of

their interests. Given such scenario, the elected officials need to be constrained for example, constitutionally in order to minimize their ability to undertake opportunistic activities. Bearing that in mind, the institution like SLA need to design and adopt institutional features like PAC and the AGO that will effectively constrain those who serve the public be it the politicians or public servants, and prevent them from engaging in activities that will harm the states in general.

Following this, understanding how individuals behave is important as rules selected from the foundations of social arrangements are basis within which members of the society or the public interact with one another (Mueller, 1989). Since individuals in political and also non-political markets are motivated by self-interest, they are faced with constraints which might not be of the same set. Under public choice theory, the differences in constraints as well as incentives which affect the behaviour of the individuals within the society as well as organizations are studied by Tullock (1987) who introduces public choice theory in 1960s.

### **3.1 Public Choice Theory and Organizational Practices**

The behaviour of the PAC in dealing with its functions may have its roots in public choice theory and organizational practice. The PAC's appointment commences with the process of when a group of individuals win the election, and subsequently appointed as members of the SLA, with the majority winning party forming the government. Members of the SLA, whether from the ruling party or the opposition, may be appointed to sit on committees such as PAC. Some of the questions that come to mind are firstly, whether those elected and later appointed, delegated and trusted to administer and make decisions on behalf of the nation are competent, and secondly, whether an effective system of oversight and sanctions can be established for such individuals as a check and balance of their work. The rights that have been reserved for the general public to impose oversight function on the state government in avoidance of harm due to misuse of power and misconduct that may exists of government officials, must be reserved (Mueller, 1989; Besley, 2007).

According to Allen et al. (1979), politics is an important behavioural process in organizational settings and the PAC is no exception. Under the public choice theory, the behaviour of PAC members is presumed to be at two extremes, firstly, they are self-interested utility maximizers, motivated by factors like patronage, power, public reputation, and salaries. Secondly, PAC members may also be characterized as individuals who will work in the public interest; ensuring that laws and practice passed at SLA are working; having pride in their performance; and also wishing to best serve the public (Allen, 1979; Besley, 2007). Hence, balancing their behaviour along these two extremes will be a challenge to all PAC members.

Since organizational politics involve intentional acts of influence to enhance or protect the self-interest of individuals or groups, such behaviour is explainable when it is associated with public choice theory. As self-interested utility maximizers, the PAC members may portray Reactive Behaviour intended to protect self-interest or group interest, or may depict Proactive Behaviour that is intended to promote their self-interest or group interest. According to Allen et al. (1979), organizational politics involve both reactive behaviour, whereby political actors minimize and avoid association with an undesirable situation, and also proactive behaviour, where blaming and attacking and making rivals look bad in the eyes of influential organizational members also occurs. The aspects above represent the contexts under consideration for exploring and explaining the variation in the practices of PACs.

### **3.2 Institutional Arrangements, Activities and Norms in Oversight Activity**

PAC formed in parliamentary systems tend to oversee the financial conduct and performance of state government in running the state. As such, unity between SLA and the state government may be a disincentive for SLA to develop strong committee systems to challenge the state government. Under the Malaysian context, so far the legislative conflict is not common nor is the SLA likely to exercise aggressive oversight.

The existence prescribed functions of PAC does not guarantee their effective performance (Pelizzo & Stapenhurst, 2004; Pelizzo, Stapenhurst & Sahgal, 2006; Pelizzo, Stapenfurst & Olson, 2006). This is because the prescriptions can be evaded as well as avoided depending on the PAC members' interpretations of their function (Degeling & Anderson, 1996). The interviewees in this research repeatedly voiced their concerns that the performance of PAC depends on the extent to which the function is executed by the PAC members who need to have the standing, power, and interests to do so. Interviewees also admitted that execution of PAC's function in terms of extent of inquiry or hearing, and the timeliness of PAC Reports production were sometimes problematic. Thus, it reflects that conflicts, interests and concerns of multiple actors like PAC members as overseer, while state officials and the Executive Council members (EXCOs) as the career and political executives respectively, were pursued to the interest of each person concerned.

The PAC's success stems from several factors. This research through initial interviews with PAC members of a state discovered that PAC normally develops a year-long calendar of activities to track government spending. However, whether such activities were carried out as planned is another matter. It has also developed a strong relationship with the Auditor General's Office (AGO) and increased contacts with him, as the State's Head of AGO sits as a secretariat member of the PAC. Despite the efforts made to strengthen the work of PACs, they are frequently hampered in their efforts which include compiling the annual PAC Report on government expenditures. Such a report requires the PAC to accumulate an incredible range of information that covers the fiscal year's issues highlighted by the AGO in its respective AGO Report. Due to the delay, the final PAC Report often focuses on events or issues that took place months or even years before; such a delay makes oversight difficult and possibly less effective.

Without bias or impartiality, the PAC is expected to play an active part in constructive, informed criticism and scrutiny of the state government actions in order to preserve good governance of public funds. PAC thus needs to adapt to the various aims, activities and actions of the state government. Consistent with the Commonwealth Parliamentary Association Workshop (2001) caution, the PAC is not able to realize its oversight functions satisfactorily if the state government do not reciprocate such good intention. For example, the PAC hearings, which are able to disclose certain flaws in the government's operations, may not achieve anything if the state executives are not forthcoming, withhold vital information, or choose to answer inadequately to queries by the PAC. The PAC members during the interviews repeatedly voiced their concerns that the state government and its agencies might misunderstand their intentions. In actual fact, such actions hinder the state governments from improving their performance.

At the Malaysian state government level, the Controlling Officers are given the power to exercise proper supervision and control over the use and collection of public funds. However, in many instances, insufficient interest has been shown by the state government, departments and agencies that in some cases, audit queries including AGO's and PAC's recommendations, have not received the attention that they merit. Browsing through earlier AGO Reports and also the PAC memorandums, most of the AGO and PAC queries and recommendations were related to financial management. Whether these queries appear in the AGO or PAC Reports has been dependent on satisfactory replies by the state executives to the respective parties (AGO and PAC). The interviewees said that queries (especially on financial management) obviously require a longer period to resolve owing to the various problems put forward by the state executives which include shortage of staff; pressure of work; inadequate accounting systems; and the amount and volume of transactions involved. However, from the comments made in the previous AGO Reports, it seems that many irregularities could have been avoided had some state governments officials, exercised careful surveillance over their staff, systems and assets. Stricter control and supervision on the side of the state departments and agencies might subsequently reduce the number of PAC queries.

#### **4. ORGANIZATIONAL AND OPERATIONAL ISSUES CONCERNING THE PAC**

Romzek (2000) claims that it is impossible to discuss accountability in terms of "more" or "less" as it suggests a linear concept that does not reflect the complexity of public management. The channel of accountability in this study ranges from state officials, to the head of department, to the EXCOs, and lastly to the SLA as the representative of general public. The multiple sources of authority hence pose challenges to those being evaluated as it may be unclear as to the source of expectations that constitute the most legitimate source of authority under given situation. Public expectation is high because resources at disposal of state governments have been acquired compulsorily via tax-payers who had no choice on the matter. Hence, adequate and clear accountability for the use of the resources is important (Mulgan, 1997; Mulgan, 2000; Strom, 2000; Bovens, 2005; Irawan, 2014). The relationship between the public, the SLA, the PAC and the state government has the nature of a principal agent relation, and, thus, it also relates to accountability.

Although the PAC and AGO do not have the power to impose remedies or sanctions, they can require state officials to provide all required information and explanation, which are made public as in the AGO Reports and the PAC Reports tabled at the SLA. According to Day and Klien (1987), if the state officials, are not accountable to authority members (the PAC or the AGO), that is to say if the links in the chain of accountability are broken, then how can the authority members be made accountable to the voters via SLA. In relation to this, Scanlen and Keys (1979) proposed that there is a distinct difference between power and authority. Power implies that an organization or individual has the ability to coerce someone into doing something by applying sanctions or manipulating rewards. Thus, organizations, may end up with antagonistic cooperation, a minimum level of performance and the possibility of open rebellion by those who cannot be coerced (McMurray, 1973). Authority on the other hand, is defined as legitimate power because the organization has conferred its authority upon an individual by virtue of the position they occupy in the organizational structure (Hicks & Gullett, 1975). Thus, formal authority is attached to a position rather than to an individual. Longenecker (1969) earlier on refers to this type of authority as institutionalized power.

In contrast to power, Barnard's (1962) Acceptance Theory proposed that authority implies a degree of consent on the part of the persons being governed. Hence, the process of people consenting to be governed by others that affects them or their behaviour is termed as legitimacy. In this sense, power only becomes legitimate when those who are affected by them externally or within organizations consent to be governed (Rowan, 1982; Tolbert & Zucker, 1983; Deephouse, 1996; Broadbent et al., 2001; Broadbent & Laughlin, 2005). Such situation is reflected so in the election process, the formation of the state government and PAC within the institution of SLA, and also in the state government's officials' actions over PAC's and AGO's recommendations.

McMurry (1973) says that without power, there can be no authority. Without authority, there can be no discipline and without discipline, there can be difficulty in maintaining order, system and productivity. Based on the analysis of the theories and interviews conducted in this paper, the granting of authority seems to be a blending of two factors. Firstly, ensuring that PAC members' skills, abilities, knowledge, and potential to contribute are taken into account in the PAC selection process. Secondly, the guidance, counsel, and help of top authorities, such as the AGO and SLA, are desirable to make PAC a success. In terms of power, McMurray (1973) suggested that PAC does not have coercive power, due to inability to apply sanctions, or granting or withholding rewards. This is also a disincentive to PAC functions. On the contrary, to grant power to the PAC to execute punishment will make the functions and power of PAC and other executive branch organizations like the public services department, the police etc. to overlap. However, in addition to legitimate power, expert power and referent power may be closer to the PAC, but subject to change accordingly providing PAC members especially the chairman possess the necessary knowledge, skills and charisma that inspire confidence in the people.

However, unlike legitimate power, expert and referent power are personal rather than positional or organizational. Normally in the Malaysian state government scenario, members of the Executive Council (EXCOs) serve as ordinary SLA members before being promoted to the position of EXCO member. Thus, they are familiar with the various aspects of a SLA members' job like constituency services, and serving on committees and questioning at SLA sessions. Such acts indirectly serve as a sort of "training" and consequently, some members may see their tenure as assemblymen at the SLA as a stepping stone to the EXCO post. Unconsciously, they may be using their position to "perform" for leaders in their party. However, members of committees like PAC where integrity, transparency and public interest are of the utmost importance, such unconscious acts may need to be checked from time to time so as not to compromise the PAC's functions. However, as foreseen by many of the PAC members interviewed, undeniably party leaders may also be judging the members' political skills to reflect on their potential for leadership positions or to promote them to sit on various committees.

In this study, the strength of the desire of the PAC members to exercise or expand their power to change a situation or take drastic decisions to overcome existing weaknesses is apparently weak. Most gave the impression that their leading effort to expand the role of SLA or PAC may lead to them having to pay political costs inflicted by their decision or actions. SLA's ability to exercise its oversight functions effectively to some degree also depends on managerial and technical capacity. SLA's or more specifically PAC's strengthening efforts should focus on building capacity for more expert staff to meet greater information needs, more effective, faster and better coordinated administration systems (Wehner, 2002; Wehner, 2003).

March and Olson (1989) associated motivational acts with the "logic of consequences" and also "the logic of appropriateness" and claim that the latter is indicative of behaviours commonly portray by people in public organizations (like PAC). This is considered reasonable as Selznick (1957) earlier on pointed out, institutions have vital role in defining social values and systems, with these institutional logics thus act as range of behaviours available to individuals. The logic of appropriateness is hence, an individual's self-concepts and Perry (2000) associated it to Bandura (1986) social cognitive theory of human motivation which gives self-regulation a prominent role (Bandura, 1991; Bandura, 1999). In the course of executing the PAC process thus, the institutional actors such as the PAC members, the state officials, the EXCOs may bring into play the rules and behaviour that serve their interests and act to evade and avoid the effects of rules and actions that are detrimental to their interests.

## **5. CONCLUSION**

According to the National Democratic Institute for International Affairs (2000), when the executive branch excessively dominates the legislature, the health of a democracy declines. In the local context, a government with a SLA that exists solely to "rubber stamp" government's decisions, cannot be deemed democratic (Shick, 2002; Looney, 2004). The PAC serves to provide the opportunity for the SLA to focus attention on, and improve matters relating to financial scrutiny, as well as increase the ability of the SLA to participate meaningfully in the SLA's process (Neal, 2003). This paper found that PAC lacks the support and consistent commitment of various parties in facilitating their tasks. It is acknowledged that it is impossible to fully factor in the background,

institutional, behaviour and functioning or the political issues of the PAC. It is also difficult to adequately capture the implied rules that developed in the system through the interaction of individuals and political agendas with PAC institutional structures. This unknown element may be best summarized as the dynamics of political and institutional culture. This study does not claim to explain the variations; rather, the focus has been given to the necessary conditions that can be objectively described.

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