

UNIVERSITI TEKNOLOGI MARA

**THE EFFECT OF INTERNAL
CONTROL AND ORGANIZATIONAL
CULTURE ON THE PERFORMANCE
OF PUBLIC SCHOOLS
IN MALAYSIA**

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ABSTRACT

The main weaknesses in internal control (IC) are reported repetitively in Public School Consolidated Audit Reports within the period 2008-2013 and the biggest weakness is failing to provide source documents as evidence to support the collection and expenses made by public schools management. The weaknesses reported above shows the ineffectiveness of the IC in managing public money and improper financial management. This study uses IC guideline for the public sector which is INTOSAI Gov 9100. Effective IC will provide reasonable assurance that the IC components, which include control environment, risk assessment, control activities, information and communication, and monitoring will help Malaysian public schools achieve its objectives. The usage of organizational culture affects the manner of implementation of IC in public organization. This study uses three dimensions of organizational culture - bureaucratic, innovative, and supportive, that exist within the school structure to support schools' long term public performance. Thus, the objective of this study is to examine the effect of IC components on the performance of public schools in Malaysia and further examine the mediation effect of organizational culture on the relationship between IC components and organizational performance of public schools in Malaysia. The performance of public schools in Malaysia is measured using the '3Es' concept - economic utilization of resources, efficiency of activities, and effectiveness of operation. A quantitative research methodology using survey questionnaires was adopted to collect data from public school principals, and out of 685 questionnaires distributed to secondary public schools in Malaysia, 328 were received providing a response rate of 47.9%. However, only 270 (39.4%) respondents from secondary school principals were used for further analysis. Secondary public schools are categorized as the Cost Responsible Centre in managing the large sum of funds allocated annually, and their respective school principals are responsible for all aspects of financial management in the public schools. Statistical analysis using Structural Equation Modeling (AMOS 21.0) was used to test the hypotheses. The statistical results revealed that IC is crucial and has a positive effect on the performance of public schools in Malaysia. However, only three components of IC, which are control environment, control activities, and monitoring have a positive and significant relationship with the performance of secondary public schools. The ethical formal structures (control environment), control activities, and monitoring play important roles in maintaining and strengthening effective IC in public schools in Malaysia. With further mediation tests, this study show that organizational culture does have some effect on the implementation of IC and the performance of secondary public schools in Malaysia. Lastly, this study contributes to the extent of literature in the area of IC using Guideline for IC for public sector that is INTOSAI Gov 9100 as IC framework and this is the first study unfolding the relationship between IC and public schools performance of secondary public schools in the central part of peninsular Malaysia.

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