FINANCIAL MANAGEMENT ACCOUNTABILITY INDEX (FMAI) IN MALAYSIAN PUBLIC SECTOR: A WAY FORWARD

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ABSTRACT

Background: The National Audit Department (NAD) of Malaysia has introduced the Financial Management Accountability Index (FMAI) within the framework of the audit rating system.

Aim: This study shares the Malaysian experience in using FMAI as accountability medium, evaluates the FMAI scores obtained by Agencies, and proposes measures to enhance the usefulness of FMAI.

Method: The study uses secondary data as provided on the NAD Web site. Descriptive analyses were conducted in evaluating the rating scores across Agencies.

Result: It was found that majority of the Agencies have a 'good' financial management system, with Federal Agencies performing better than their counterparts at the State level. It was also found that the overall rating system and FMAI suffer from lack of proper disclosure, consequently reducing their worthiness.

Conclusion: There is still some room for improvement that need to be addressed by the NAD to enhance the value of the overall audit rating system.

Keywords:
Financial management, benchmarking, performance disclosure, accountability index, developing countries, rating, transparency, public sector reform

FINANCIAL MANAGEMENT ACCOUNTABILITY INDEX IN THE MALAYSIAN PUBLIC SECTOR: A WAY FORWARD

1.0 Introduction

Several evidences on the mismanagement of public funds among Malaysian Public Agencies and officials have been under the spotlight of the media. As a case in point, the 2006 Auditor-General's Report, among others, reveals a case of mismanagement of public funds by the Youth and Sports Ministry, involving the purchase of items and equipment costing more than triple their market price. More recently, the Public Account Committee (PAC) in 2009 reported a massive cost blowout of RM12.5 billion from an original cost of RM1.82 billion involving Ministerial and top Government officials, with the former Transport minister named as the liable person. This malpractice, which is linked to the free-trade zone (i.e., Port Klang Free Zone), has been proclaimed as one of the country’s biggest financial scandals.

Part of the efforts undertaken to curb the problem of mismanagement and overspending of public funds was the introduction of the financial management accountability index (FMAI) for all Ministries and State treasuries starting year 2007. The index is an objective financial management assessment of all Ministries and State Governments whereby marks are awarded and star ratings given based on the marks. The results will be used to identify areas of weaknesses so that the organization can embark on enhancements of its financial operations and performance (National Audit Department of Malaysia, 2008). The FMAI will also serve to foster healthy competition among the auditees towards improving their financial management. This will in turn enhance accountability, transparency, and efficiency in the public service delivery system performance. The auditees who have achieved an excellent rating can serve as role models for other organizations (National Audit Department of Malaysia, 2008).

The objectives of this study are threefold. The first is to describe the FMAI as it has been developed by the National Audit Department (NAD) of Malaysia. The second objective is to assess the results of the FMAI scores across various Government Agencies in Malaysia. The third is to suggest ways on how the FMAI can be made more useful for both the Government as well as the larger public.

The paper first briefly discusses the concept of financial management accountability (FMA) in the public sector and its status in developing countries. It then proceeds with an overview of the Malaysian Government and its efforts towards enhancing FMA. This is later followed by discussion on the development of the financial management accountability index (FMAI), which is the central theme of this paper. The methodology of the research is then explained, followed by a discussion of the results from the scoring and rating processes. The paper then outlines recommendations towards enhancing the usefulness of the FMAI before presenting the conclusion.

2.0 Financial management and accountability in the public sector

Public sector financial management is crucial to a country's economic development. Issues such as extravagance, wastage, embezzlement, and corrupt practices will affect the development of a country (Office of the Auditor-General, 2008). As taxpayers, who are the providers of funds, citizens expect their Government to provide value-for-money (VFM) services to them. In view of this, financial management must be administered in a proper manner by Governments around the world.

Public officials and their offices are therefore accountable for the efficient and effective management of funds provided by these taxpayers to achieve the intended outcomes of the specified activities (Patton, 1992). This is the concept of public accountability, which links to financial (management) accountability, the latter being the most apparent accountability concept in the public sector arena (Corbett, 1992, as quoted by Boyce, 2000). This concept can be partly explained by the Agency theory, whereby the public or voters serve as the principal while elected politicians serve as the agent (Banker & Patton, 1987). The latter - who are represented by the bureaucrats or public managers - are to be answerable to the former for managing the former's resources (Giroux & Shields, 1993).

Studies indicate that accountability is a process that should be results-oriented, with the ultimate goal of improving performance (Artley, 2001). To enhance financial performance, sustained efforts are required in improving financial management practices (Olson et al., 1998). These include improving the internal financial control system, and more effective control of public expenditure through better allocation of resources from wasteful consumption to productive human and physical infrastructure investments (Subramaniam, 1998). Also, good accounting practice is necessary, including the timely submission of government financial accounts and transparency in budget presentation. In the context of this study, having a FMAI would help public organizations discharge their financial management accountability through the proper management of financial resources.

In the context of developing countries, “although many are attempting to promote public accountability as a part of public sector reform, their situation remains unsatisfactory compared to advanced countries” (Kim, 2009; Manning, 2001; Polidano, 1999; Siddiquee, 2005). Among these developing countries are Malaysia (Siddiquee, 2005), Bangladesh (Sarker, 2006; Siddiquee, 2003), Uganda (Langseth, 1995), Chile (Parry, 1997), Ghana (Christiansen, 1998; Dodoo, 1997), Sri Lanka (McCourt, 2007), and Malta (Polidano, 1996). Although, admittedly, these reforms have been able to improve public service delivery to a certain extent, it seems various equally important (if not more important) issues such as accountability system, corruption and mismanagement, decentralization and community participation, and enforcement of rules and regulations, have not been sufficiently dealt with (Siddiquee, 2002). This failure has been partly attributed to the distinctive and serious challenges faced by these countries, mainly considered to be due to the lack of transformational leadership and political will. It was consequently argued that political and legal reform is indispensable to ensuring successful public sector reform (Kim, 2009; Subramaniam, 1998).

In a similar vein, prior studies have shown that the accounting and financial management systems in developing countries are relatively deficient (Blondal, 1988; Craner & Jone, 1990; Dean, 1988; Ghartey, 1985; Lu, 1988; Moechtar, 1975; Siddiquee, 2006b; Skousen et al., 1993; Subramaniam, 1998). In general, the governmental accounting systems in developing countries are described as 'inadequate' (Blondal, 1988), 'deficient' (Dean 1989), and 'old-fashioned' (Craner & Jones, 1990). In China, Lu (1988) and Skousen (1993) agreed that the government sector financial reports were far from satisfactory. In Indonesia, Moechtar (1975) found the government was still using the single-entry system for recording financial transactions, and there was a lack of a complete set of accounts in each operating department. Meanwhile, Subramaniam (1998) found that in Sub-Saharan Africa countries, such as Kenya, Malawi, and Zambia, the financial management systems were problematic and the budgetary process needed a revamp, partly due to the chronically ineffective control of expenditures and lack of accountability.

The inadequacy of the financial management reporting system at the central level has been identified as one of the main causes of the system's weakness, and has led to "inconsistent decision making, ineffective monitoring of fiscal developments and consequently resulting to imbalances in public finance" (Blondal, 1988). Further, fundamental constraints such as rapid population growth, low human infrastructure development, and inadequate economic and social infrastructure are also contributing factors impeding any efforts towards achieving a good financial system (Subramaniam, 1998).

3.0 Financial management accountability in Malaysia and its reform agenda

Following the above discussion, Malaysia, as one of the developing countries, also suffers to a certain extent from weak financial management and control systems in various public institutions, including statutory bodies (Abdul Hamid et al., 2007; Azis, 2008), local authorities (Basnan et al., 2007), State religious councils (SRCS) (Abdul Rahman & Goddard, 2003; Md. Zain, 2005; Yaacob, 2006; Zain et al., 2008), as well as at the Federal government level (Siddiquee, 2005, 2006a). A study conducted by Md. Zain (2005, 2008) found that a high percentage of State religious councils (SRCs) have not complied with the respective rules and standards pertaining to the preparation and submission of financial statements. Similarly, Abdul Hamid (2007) found that there was a huge delay in the submission of accounts among Federal statutory bodies. In contrast, there was increasing pressure to demand for greater financial accountability in the local government context; that is, for local authorities to give an account of and justification for their activities to the public, particularly on issues regarding fiscal health and discipline in financial management (Abdul Khalid, 2008; Basnan et al., 2007). Nevertheless, contrary to the above, there are also a few studies that found good financial management practices in some Malaysian Public Agencies, including universities (Tayib & Hussin, 2005) and mosques (Sulaiman, 2007).

Several worldwide studies conducted by non-governmental organizations seem to support the extant literature on the accountability problem in Malaysia (International Budget Partnership, 2008; Kaufmann et al., 2008; Transparency International, 2008a). For example, the results of a study by Kaufmann (2008) from the World Bank Institute on World Governance Indicators showed that Malaysia placed within the third quarter in the 2007 ranking for the 'Voice and accountability' category. It is also disheartening to note that this has been the case for the past 11 years, as the study benchmarks the data against those in the years 1996 to 2006.

Siddiquee (2006) has argued that, in general, these problems are partly rooted in the politico-bureaucratic institutions that render accountability mechanisms largely ineffective. Specific to the local government context, the lack of financial and physical capacity (Abdul Khalid, 2008), and the absence of regulations and requirements for local authorities to report on their performance and accomplishments in the delivery of programs and/or services (Rauf et al., 2004; Basnan et al., 2007) have been identified as among the important contributing factors. The other reasons highlighted include the inadequate number of accounting staff, resistance to change, and lack of top management support (Rauf et al., 2004).

In an effort to tackle the above issues regarding the mismanagement of public resources and other accountability concerns, the Malaysian Government has been undertaking various initiatives towards enhancing its accountability (Saleh, 2008; Siddiquee, 2006b). These include a series of reform programs that came about as early as the late 1960s, with the improvement of financial management accountability as one of the main agendas (Saleh, 2007, 2008). More new programs have been subsequently carried out. Table 1 lists the major milestones in the public sector reform carried out by the Malaysian Government.

Insert Table 1

As shown in Table 1, one of the recent initiatives by the Malaysian Government is the implementation of the audit rating system by the NAD, namely, the Financial Management Accountability Index (FMAI), beginning year 2007. The National Audit Department (NAD) is an independent body set up under the requirement of the Federal constitution and supported by other Government systems and procedures (Rauf et al., 2004). Its establishment as an independent institutional body that does not fall under the jurisdiction of the Ministry of Finance (nor any other jurisdiction or powers) was an effort to strengthen the financial management in the public sector administration (Office of the Auditor-General, 2007). Being the central and most important mechanism within the chain accountability process in Malaysia (Rauf et al., 2004), the NAD is tasked with ensuring that all Government rules and procedures are implemented and complied with through the audit of the accounts and activities of all Federal Government Ministries, Departments, and Agencies, and of the State Government (Office of the Auditor-General, 2007).

4.0 Accountability Index Ratings

The FMAI is the first financial accountability index that has been introduced, not only in Malaysia (National Audit Department of Malaysia, 2008) but also in the global context. The introduction of the index is in line with the emphasis on Quality Management Systems and Key Performance Indicators envisaged by the Malaysian Government. It is an innovative tool to encourage continuous improvements in the Government's financial management (Office of the Auditor-General, 2008). The rationale for introducing the AI is to respond to the concern over the instances of non-compliance and internal control weaknesses that have been repeatedly mentioned in annual audit reports. Its objective is mainly to assess the extent of financial management in Ministries, Departments, Statutory Bodies, Local Authorities, and Islamic Religious Councils in terms of adhering to Government financial laws and regulations; thus, it is a form of compliance audit.

Through FMAI, it is hoped that accountability and good governance would be stimulated and promoted. The results will serve as a benchmark for self-improvement as well as against the performance of other Ministries/Departments. At the moment, no penalties have been set for non-performers. Rather, the Agencies are expected to be sufficiently induced to take corrective action on their weaknesses on a timely basis and to undertake the necessary corrective action on the shortcomings highlighted in the audit report (National Audit Department of Malaysia, 2008).

The introduction of the FMAI, being a medium for improving accountability, has been generally well accepted by the stakeholders of public agencies (Chin, 2007; Rahman, 2007). Transparency International (TI), an external monitoring body, for example, has described this effort as “a step in the right direction” (Transparency International, 2008b), as it shows the NAD’s seriousness in checking corruption and the abuse of public funds and assets. Similarly, this rating system is envisaged by the Public Accounts Committee (PAC) as a medium that would spur everyone in the civil service, from secretaries-general to clerks, to work effectively (Rahman, 2007). Public Agencies see this system as a basis for them to seek out improvements in public and financial management so that that they can secure the most prestigious rating (Xavier, 2009).

In implementing the FMAI, the NAD has prudently divided the audit into two categories: mandatory and rotational assessment. This is partly due to the existence of a substantial number of Public Agencies; thus, the optimal allocation of audit resources is necessary. Table 2 shows the types of Agencies that fall under each category. The four types of Agencies that fall under the mandatory assessment will be subjected to yearly assessment as the number of Agencies in each group is relatively small. Other Agencies will be assessed every three years (National Audit Department, 2008).

Insert Table 2

4.1 Scoring and rating procedure

The FMAI comprises nine elements. These nine elements are deemed to be the core areas in financial management (Xavier, 2009). For each element, the NAD provided its basis for selection or aim, as summarized in Table 3. The financial management of the Ministries and Departments at the Federal and State levels is assessed according to the first six elements (items (i) - (vi)) in Table 3. In contrast, for Federal and State Statutory Bodies, Local Authorities, and State Religious Councils, an additional three elements (items (vii) - (ix)) will be assessed. These three elements (management of investment, loan, and financial statement) are not applicable to the former group (Federal/State

Ministries and Departments) as they are not involved in investment and loan-taking activities. Neither are they individually required to prepare financial statements, as the Accountant General's Department prepares Public Accounts from the centralized records maintained by them for the Federal Government of Malaysia (Rauf et al., 2004).

Insert Table 3

In order to evaluate each of the nine assessment elements, specific indicators and sub-indicators are used. Each indicator/sub-indicator consists of several criteria. For example, the budgetary control element comprises budget preparation, provisional distribution, performance monitoring, etc. The indicators/sub-indicators of all the nine elements are provided in Appendix 1. The assessment of each criterion is given a score of 1 to 4 (1=not satisfactory, 2=satisfactory, 3=good, 4=excellent). The scores for each indicator/sub-indicator are totalled based on a given weightage to obtain the overall marks, as shown in Table 4. The basis of the given weightage is based on the level of criticality or impact of the element to the overall financial management. The higher the weightage allocated, the more critical the element is.

Insert Table 4

Finally, marks are given according to the Agency's performance in financial management and translated into star ratings to gauge compliance, as depicted in Table 5. In essence, a one-star rating denotes a deplorable state of financial management, while a four-star rating means the financial management of the Ministry is excellent (Xavier, 2009). The percentage scores and the corresponding star ratings are then presented on bar charts across Agencies of similar categories or within states. From there, comparisons can be made, allowing benchmarking among Agencies.

Insert Table 5

5.0 Research methodology

In relation to the second objective of the research (i.e., to assess the results of the FMAI scores across various Public Agencies in Malaysia), this study attempts to answer the following main questions:

i- Do Public Agencies at both the Federal and State levels adequately comply with financial management rules and regulations?

ii- Do Federal Agencies have better financial management compliance than State Agencies?

iii- Which type of Agencies (at Federal or State level) show better compliance with financial management rules and regulations?

In answering the above questions, this study uses secondary data available on the National Audit Department (NAD) Web site (http://www.audit.gov.my). The only data provided are four-color bar graphs indicating the levels of rating obtained by each Agency. The colors are blue, green, yellow, and red, representing 4-star/excellent, 3-star/good, 2-star/satisfactory, and 1-star/not satisfactory ratings, respectively. A sample of the bar chart is provided in Appendix 2. There are a total of sixteen (16) graphs, with one each for the Federal Ministries, Federal Departments, and Federal Statutory Bodies; the remaining thirteen graphs are for the thirteen States in Malaysia (Table 6 shows the list of graphs and the number of Agencies included in each graph). In many of the graphs provided, there was no information on the exact percentage scores; thus, the actual scores are subject to estimation. Efforts have been taken by the researchers to get these data as well as more detailed scores from the NAD, particularly the details of the full scores obtained by each Agency for all the nine elements that were assessed. Unfortunately, it was later officially made known that these data are not for public disclosure.

Insert Table 6

In analyzing the findings of the study, the results (in the form of levels of rating) of all the sixteen graphs were first transformed into a table (for details of the results for all 200 Agencies, refer to Appendix 3). For State-level Agencies, the results, which were originally grouped according to the thirteen states, were reclassified into five groups: (i) Ministries/Departments, (ii) Statutory Bodies, (iii) Local Authorities, (iv) Religious Councils, and (v) State Economic Development Corporations. For Federal-level Agencies, the original groupings remain (Ministries, Departments, and Statutory Bodies). The reclassification at the State level was done mainly to allow a more meaningful analysis and evaluation of the results. It also forms the basis for conducting descriptive analysis among different types of Agencies and their respective ratings. In particular, descriptive analyses were conducted on the following:

i- 3 types of Federal Agencies and their ratings ii- 5 types of State Agencies and their ratings

iii-13 States and their ratings

6.0 Results and Discussions

6.1 Number and types of Agencies included in the assessment

In the first year that this system was implemented (i.e., 2007), a total of 200 Agencies were subjected to the assessment, with 58 Agencies included in the mandatory assessment and 142 in the rotational assessment. Out of the 200, 85 and 115 were Federal and State Agencies, respectively. Table 7 shows the breakdown of the number of Agencies selected and involved in the mandatory and rotational audits according to level and type of Agency.

Insert Table 7

6.2 Star rating score

6.2.1 Results for Federal Agencies

As shown in Table 8, at the Federal level most of the Agencies (75.3 percent) obtained a 3-star rating. The trend is similar within each of the four categories of Federal Agencies (i.e., Ministries, Departments, Universities, and financial institutions), where at least 65 percent of the Agencies scored 3 stars. This implies that, on average, the financial management of these Federal Agencies may be categorized as 'good.' In other words, these Agencies comply with the prescribed managerial policies, plans, and procedures, as well as statutory laws and regulations. This may suggest that no corrective actions are expected from them, although initiatives toward further improvement are encouraged.

Insert Table 8

Further, it is also commendable that almost 10 percent of the Federal Agencies obtained a full-star or four-star rating. This - according to the interpretation provided by the NAD - means that their overall financial management is 'excellent.' In essence, for these Federal Agencies, the objectives of each of the nine elements evaluated in the program have been greatly achieved, and their overall internal control has been effective and can be a point of reference for others.

As expected, of the four types of Federal Agencies, financial institutions seem to have the best financial management practices, as all of them received at least 3 stars. This result is somehow expected partly due the nature of financial institutions; it is deemed they would have a higher level of awareness on the importance of sound financial management and therefore would have exerted greater effort to achieve it. In fact, of all the Federal Agencies, the best performer in this assessment was a financial institution, the Bank Kerjasama Rakyat Malaysia (BKRM).

Table 9 shows a list of the eight Federal Agencies that achieved a 4-star rating, with Bank Kerjasama Rakyat Malaysia (BKRM) leading the pack with a score of 93.85 percent. In this regard, it is interesting to note that BKRM is widely known among the Malaysian public as a financially successful organization that, without fail, pays its shareholders a substantially high yearly dividend of up to 20 percent (Bernama, 2009). This finding thus seems to support the literature, which propagates that sound financial management is necessary to ensure the good financial performance of an organization (Artley, 2001; Olson et al., 1998; Subramaniam, 1998).

Insert Table 9

The results also show that, following financial institutions, Universities are the second best in terms of financial management compliance. This is consistent with prior findings by Tayib & Hussin (2005), which show that Public Universities do have adequate financial management controls in place. According to them, to some extent Malaysian Public Universities do adopt so-called ‘good budgeting characteristics,’ which comprise a useful mechanism for improving the performance measurement system.

On a separate note, it is a relief to find that none of the Federal Agencies included in the assessment obtained only 1 star. This is because scoring only 1 star may essentially be a sign of an uncontrolled state of affairs in that particular Agency. It represents an unsatisfactory level of financial management, where compliance to rules and policies is lacking, and major internal controls are absent.

6.2.2 Results for State Agencies

With regard to the performance of State Agencies in the assessment, an almost similar pattern of scoring with that of Federal Agencies was observed, with most State Agencies scoring 3 stars (56.52 percent), followed by 2-star (41.74 percent) and 4-star (1.74 percent) ratings, and none with a 1-star rating (refer to Table 10).

Insert Table 10

Looking closer into these results, a high percentage (77 percent) of State Economic Development Corporations (SEDCs) obtained at least 3 stars, making them the best type of State Agencies in the FMAI assessment. This favorable result came as no surprise considering the nature of SEDCs as Government Agencies mandated to promote the states' economic development. SEDCs have financial autonomy and operate on a commercial basis, which requires them to manage their organizations in the same way business entities are managed; this includes good financial management practices (Jones, 2006).

From this perspective, Statutory Bodies would be expected to show similar results. Unfortunately, this is not the case. Rather, the results for State Statutory Bodies seem to contradict the performance of Federal Statutory Bodies, with the former ranked last among State Agencies and the latter first among Federal Agencies. This finding would be an interesting point for future investigation.

Table 10 also shows State Religious Councils (SRCs) with the second lowest ranking in the assessment, following Statutory Bodies. This somehow supports prior findings, which suggest that the financial management system in SRCs is inadequate. Previous studies highlighted the mismanagement and lack of administration of *zakah* (Islamic tax) (Abdul Rahman & A.R, 1998), and the improper accounting of *waqf* (Islamic endowment) assets (Yaacob, 2006) in SRCs. The financial decision-making process was also found to be underdeveloped. Among the reasons identified were a low regard for accounting in SRCs, the lack of necessary expertise, and a shortage of staff (Abdul Rahman & Goddard, 2003).

A comparison of the FMAI scores among the thirteen states in Malaysia reveals that the majority of Agencies scored at least 3 stars, with the exception of three states, namely Perlis, Terengganu, and Kelantan (refer to Table 11). Interestingly, the similarities among these three states are that they are less developed (Economic Planning Unit, 2006) and are located furthest from Kuala Lumpur (the capital city of Malaysia)[1]. These facts may partly explain the lack of financial management in these States' Agencies. Further, the State of Kelantan, all the Agencies of which scored only 2 stars, was shown to be the worst performer in this exercise. A possible explanation is the fact that Kelantan is the state longest ruled by the opposition in the Malaysian Federal Government and is therefore relatively constrained in terms of the resources (Yusoff, 2001) needed to employ a proper financial management system.

Insert Table 11

As shown in Table 12, an average of 66.3 percent of all Government Agencies, both at the Federal and State levels, scored 3 stars; 5.6 percent earned a 4-star rating, 28.1 percent had a 2-star rating, and none got a 1-star rating. This is a reasonably acceptable outcome, considering that the assessment was conducted for the first time in 2007. As the assessment is carried out on an annual basis, future assessments may show better results as Agencies strive to portray a good image to the public.

Insert Table 12

Further, while it is true that the relative performance of State Agencies is generally either good (3 stars) or satisfactory (2 stars) - 57.4 percent and 40.9 percent of Agencies,

[1] This does not include the two states (Sabah and Sarawak) that are located in East Malaysia. Malaysia is basically separated by the South China Sea into two regions, namely Peninsular Malaysia (11 states) and East Malaysia (2 states).

respectively - in comparison to Federal Agencies, the former still have much room for improvement. Table 12 also indicates various instances where the latter still lag behind the former in terms of the practice of financial management. This may be a point to ponder for State treasuries, particularly how it can emulate the better financial management practices performed by its counterparts at the Federal level.

The overall performance results at the State level provide enough support to suggest that due attention needs to be given to improve the status of financial management in State Agencies. Although the exact weaknesses or instances of non-compliance were not identified due to the lack of access to the needed data, it can generally be proposed that more trainings and courses need to be conducted for managers and staff at various levels in State Agencies. This may help to increase their awareness and skills, as well as their understanding of the importance of having a proper financial management system as prescribed by the policies, procedures, and standards. In this regard, Saleh (2008) has pointed out that the Malaysian civil service has not been able to attract expert accountants with professional accounting background mainly due to the relatively less attractive remuneration package offered by the Government. Speakers from treasuries at the Federal level may be invited to share their experience and knowledge on how to bring about a better financial management system theoretically and practically.

6.3 Evaluation of FMAI disclosure

The present method of disclosure of the results of the rating is through the Web site of the National Audit Department (NAD). The results were shown in the form of bar charts. The overall scores (in percentages) of each of the 188 Agencies were provided in sixteen different charts, as explained earlier, giving Web users and viewers of the charts general insights on the overall performance of each of these Agencies. Although this is a laudable move - as this is a pioneering effort – we believe there are many other better mechanisms by which this particular information can be disclosed and shared with a wider public.

First, instead of simply depicting the performance of each Agency in its aggregate form, it would be more useful if the detailed scores for each of the nine elements and their criteria were disclosed. For example, what score each Agency got for the 'expenditure control' element, and within this element, how much each Agency scored for each criterion. Considering that substantial costs must have been incurred in conducting this audit rating system, it is only sensible that the results be sufficiently disclosed so that the greatest benefit can be achieved from the overall rating system. Otherwise, the purpose of having the rating and the index itself would be defeated, as they may not help in promoting transparency and accountability in the public sector.

Second, the NAD should make more innovative and creative use of technology. The results could have been displayed in an interactive manner using more advanced technologies instead of merely displaying a static bar graph. The current display of results is less effective, as the graph images are mostly blurry and difficult to read. For some of the graphs, it was left to the users to estimate the scores (in percentages), as not all of them were accompanied with numerical and exact percentages. This may somehow give a wrong impression to the public on the seriousness of the NAD in promoting transparency and accountability. An interactive display of results would allow users to view the results according to their preferences. For instance, they can choose which Agency to view and in what form they would like the results to be presented. By so doing, the users can better analyze the results according to their personal circumstances and purposes. Public Agencies, knowing they are closely monitored by the public through the full disclosure of the results, may also become more motivated to undertake the necessary corrective actions to address their shortcomings as revealed in the scoring.

Third, the NAD can also make it compulsory for each of these Agencies to share these results with their stakeholders by publishing their scores on their respective Agencies' Web sites and other reporting media. This is because not many of the public visit the NAD Web site where the results are presently published. By doing as suggested, more people can be alerted on the performance of these Public Agencies in handling public funds, thus possibly exerting more pressure for the respective Agencies to enhance their performance. The disclosure to a wider audience may serve as an incentive for the heads of Ministries, Departments, and Agencies to compete in improving their performance in an effort to maintain their credibility in the public's viewpoint.

Overall, in deciding what and how information is to be published, the NAD must always consider the cost-benefit analysis. By sharing more detailed information and in a more effective manner, citizens may be in a better position to assess the accountability of the respective Agencies in handling public funds. In the same way, this may drive the respective Public Agencies to address their weaknesses on a timely basis so as to ensure the public perceives them favorably. It is also imperative for Government Agencies to demonstrate to the larger public that the Government's pledge of promoting transparency and accountability - as aspired by Prime Minister Najib Razak - is consistently upheld throughout all its activities. Only when all these are realized will the benefits of having the FMAI far outweigh its cost.

7.0 Conclusions

The purpose of this study is to illustrate the financial management accountability index (FMAI) developed within the framework of the audit rating system by the National Audit Department (NAD) of Malaysia. It examines the FMAI scores obtained by various Government Agencies in Malaysia through descriptive analysis and then evaluates the appropriateness of the present disclosure method for the FMAI results. The study mainly refers to the NAD Web site to gather information on the scores obtained.

Overall, it was found that most Public Agencies scored 3 stars out of the full 4 stars in the assessment, indicating a 'good' financial management system. This can be considered as reasonably acceptable, considering that this is the first time the assessment was done. As this assessment is meant to be carried out on an annual basis, some improvement in the rating scores may be anticipated in future assessments. It was also found that Federal Agencies in general have a better financial management system than those at the State level. This discrepancy needs to be addressed, especially by the State Government, to ensure that the state of affairs improves in the years to come. Additionally, of the five different types of Federal Agencies assessed, financial institutions and Universities, both being Statutory Bodies, outperform Federal Ministries and Departments. At the State level, the results appear to be contradictory, with State Statutory Bodies being the lowest scorers in the rating exercise. Specifically, State Economic Development Corporations (SEDCs) were shown to have the best financial management practices among State Agencies, followed by State Ministries and Departments, Local Authorities, and State Religious Councils.

The present method of disclosing the FMAI results also needs to be looked into. Considering that we are in the technology era, merely displaying the FMAI results in a static bar graph, without detailed scores, and only at the NAD Web site may be seen as not supporting the Government aspiration to promote transparency and accountability, as propagated by Prime Minister Najib Razak. Further, taking into account that the FMAI is a benchmarking mechanism, the findings serve as evidence that different categories of Government organizations have different levels of financial management compliance and may thus require different approaches to overcome their weak spots. It is hoped that the awarding of star ratings will have some bearing on the seriousness of the heads of Ministries, Departments, and Agencies to walk the talk in ensuring accountability and integrity in their respective Agencies, and hopefully, to diligently resolve the persistent weaknesses in their financial management.

7.0 Limitations and recommendations for future research

The data available were only for one year, i.e., 2007, as the AI was only introduced in that year. The data for the consequent years have yet to be made available on the NAD Web site. As such, no comparison could be carried out across various years to identify any material improvements in each Agency. However, this may be a gap that could be fulfilled by future research. Future studies could also investigate why the financial management practice of State Statutory Bodies is not as good as that of its counterparts at the Federal level. Despite the above limitations, it is nevertheless believed that this study is a useful initiative towards exploring the issue of concern.

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Table 1: Major milestones in the Malaysian public service reform

No.	YEAR	INITIATIVES
1	1968	Programme and Performance Budgeting System (PPBS)
2	1987, 1992	Micro-Accounting System (MAS)
3	1990	Modified Budgeting System (MBS)
4	1991	Productivity Improvement Initiative (PMI)
5	1992	Total Quality Management (TQM)
6	1993	Clients' Charter
7	1996	ISO
8	1999	Benchmarking
9	2004	Key Performance Indicators (KPIs) for government-linked companies
10	2005	Key Performance Indicators (KPIs) for all other government agencies
11	2007	Treasury Strategic results area and strategic KPIs
12	2007	Auditor-General's Star Rating on Financial Management
13	2008	MAMPU's Star Rating System on Public Management
14	2009	Key Performance Indicators (KPIs) for Minister and Ministries
15	2009	Key Performance Indicators (KPIs) for jobholders in the senior echelons of public service

Source: Modified by author from Xavier (2009)

Table 2: Types of agencies involved in mandatory and rotational assessment

LEVEL	MANDATORY	ROTATIONAL
Federal	Federal Ministries Main revenue collecting department	Federal Departments Federal statutory bodies
State	State Religious Councils State Economic Development Corporations	State Ministries/Department State Statutory Bodies Local Authorities

Table 3: Elements of assessment and its basis of selection

No.	ELEMENTS OF ASSESSMENT	BASIS OF SELECTION
i.	Organisational Management Control	to ascertain to what extent the agencies have established an effective structure, system and procedure on financial management.
ii.	Budgetary Control	to ensure that the agency budget is properly planned, prepared, allocated and managed according to the stipulated legislations and objectives.
iii.	Receipts Control	to ascertain whether the receipts are effectively managed according to the stipulated procedures, laws and regulations.
iv.	Expenditure Control	to determine whether all expenditure have been approved and utilized according to the determined objective.
v.	Management of Trust Funds, Trust Accounts and Deposits	to ascertain the extent to which they are being managed according to the stipulated objective, accounted correctly as well as to ensure complete and updated records are maintained.
vi.	Management of Assets and Inventories	to ascertain the assets and inventory of the agency have been properly managed, safeguarded and reported accordingly to the stipulated rules and regulations.
vii.	Management of Investments	to ensure the investment is properly managed in accordance to the approved/authorized limit and relevant records are maintained and updated.
viii.	Management of Loans	to ensure that the loan is properly and well managed.
ix.	Financial Statement	to assess the financial performance (Profit/Loss, liquidity ratio) and the submission of financial statement (Completeness, timeliness).

Table 4: The weightage of nine (9) elements in FMAI

No.	Elements	Federal/state ministry/ department	Other government agencies
		Weightage (%)	Weightage (%)
i.	Organisational Management Control	10%	20%
ii.	Budgetary Control	15%	5%
iii.	Receipts Control	20%	15%
iv.	Expenditure Control	25%	25%
v.	Management of Trust Funds, Trust Accounts	10%	10%
vi.	Management of Assets and Inventories	20%	15%
vii.	Management of Investments	*	5%
viii.	Management of Loans	*	5%
ix.	Financial Statement	*	5%
		100%	100%

* Not applicable to federal/state ministry or department

Source: National Audit Department (2008)

Table 5: Scores and levels of rating

Score	**Rating**	**Level**
90 - 100%	4 stars	Excellent
70 - 89%	3 stars	Good
50 - 69%	2 stars	Satisfactory
49% and below	1 star	Not satisfactory

Table 6: List of graphs and no. of agencies included on National Audit Department (NAD)'s website

Graph No.	**Category**	**No. of Agencies Included**
1	Federal Ministries	28
2	Federal Departments	31
3	Federal Statutory Bodies	26
4	Johor	8
5	Kedah	7
6	Kelantan	7
7	Malacca	5
8	Negeri Sembilan	6
9	Pahang	8
10	Perak	9
11	Perlis	7
12	Penang	7
13	Sabah	15
14	Sarawak	18
15	Selangor	10
16	Terengganu	8
		200

Table 7: Agencies involved in mandatory and rotational assessment

Level	Agencies	Mandatory	Rotational	Total
Federal	Ministries	28		85
	Main revenue collecting departments	4		
	Federal Departments		27	
	Federal Statutory Bodies		26	
State	State Ministries/ Departments		63	115
	State Statutory Bodies		4	
	Local Authorities		22	
	State Islamic Religious Councils	13		
	State Economic Development Corporation	13		
		58	142	200

Table 8: Star rating score (federal level)

	4-STAR		3-STAR		2-STAR		1-STAR	TOTAL	
AGENCIES	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**No.**	**%**
Statutory Bodies-Financial Institutions	2	20%	8	80%	0	0%	0	**10**	100%
Statutory Bodies-Universities	0	0%	14	88%	2	13%	0	**16**	100%
Ministries	1	4%	22	79%	5	18%	0	**28**	100%
Departments	5	16%	20	65%	6	19%	0	**31**	100%
Subtotal	**8**	**9.4%**	**64**	**75.3%**	**13**	**15.3%**	**0**	**85**	**100%**

Table 9: List of federal agencies that achieved '4-star or excellent' status

NO.	FINANCIAL INSTITUTIONS	SCORE
1	Bank Kerjasama Rakyat Malaysia Berhad	93.36%
2	Public Service Department	90-92%
3	Implementation and Coordination Unit	90-92%
4	Malaysian Administrative Modernisation and Management Planning Unit	90-92%
5	Malaysia Deposit Insurance Corporation	91.16%
6	Prime Minister's Department	90-92%
7	Manpower Department, Sarawak	90-92%
8	Attorney General Chambers	90-92%

Table 10: Star rating score (state level)

	4-STAR		3-STAR		2-STAR		1-STAR	TOTAL	
AGENCIES	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**No.**	**%**
Economic Development Corp.	1	8%	9	69%	3	23%	0	**13**	100%
Ministries/ Departments	1	2%	36	57%	26	41%	0	**63**	100%
Local Authorities	0	0%	12	55%	10	45%	0	**22**	100%
Religious Councils	0	0%	7	54%	6	46%	0	**13**	100%
Statutory Bodies	0	0%	2	50%	2	50%	0	**4**	100%
Subtotal	**2**	**1.7%**	**65**	**57.4%**	**48**	**40.9%**	**0**	**115**	100%

Table 11: States in Malaysia and its FMAI ratings

STATE	**4-STAR**		**3-STAR**		**2-STAR**		**1-STAR**	**TOTAL**
Negeri Sembilan	0	0%	6	100%	0	0%	0	6
Pahang	1	13%	6	75%	1	13%	0	8
Penang	0	0%	6	86%	1	14%	0	7
Selangor	0	0%	8	80%	2	20%	0	10
Perak	0	0%	6	67%	3	33%	0	9
Sarawak	0	0%	11	61%	7	39%	0	18
Sabah	0	0%	9	60%	6	40%	0	15
Malacca	0	0%	3	60%	2	40%	0	5
Kedah	0	0%	4	57%	3	43%	0	7
Johor	1	13%	3	38%	4	50%	0	8
Terengganu	0	0%	3	38%	5	63%	0	8
Perlis	0	0%	1	14%	6	86%	0	7
Kelantan	0	0%	0	0%	7	100%	0	7
	2	1.7%	66	57.4%	47	40.9%	0	115

Table 12: Comparison between federal and state's star rating

RATING	FEDERAL	STATE	Average	Difference
4 stars / Excellent	9.4%	1.7%	5.6%	7.7%
3 stars / Good	75.3%	57.4%	66.3%	17.9%
2 stars / Satisfactory	15.3%	40.9%	28.1%	-25.6%
1 star / Not Satisfactory	0.0%	0.0%	0.0%	0.0%

Appendix 1: Main and sub-indicators of nine (9) assessment elements

Main and sub-indicators for Organisation Management Control

No.	Main Indicators
1.	Organisation Structure • Organisation Chart • Delegation of Powers • Segregation of Duties • Board of Directors* • Top Management* • Council Members*
2.	System and Procedure • Financial and Accounting Regulations • Work Procedure Manual • Desk File • Surprise/Spot Checks
3.	Committees and Internal Audit Unit • Financial Management and Accounts Committee • Audit Committee* • Development Action Committee** • Management Integrity Committee • Internal Audit Unit
4.	Human Resource Management • Establishment • Work Transition Plan • Human Resource Development Panel** • Training • Surcharge

* *Applicable to Federal and State Statutory Bodies, Local Authorities and Islamic Religious Councils only*

** *Applicable to Federal and State Ministries/Departments only*

Main and sub- indicators for Budgetary Control

No.	Main Indicators
1.	Budget Preparation
2.	Allocation Distribution
3.	Approval of Virement/Supplementary Allocation
4.	Monitoring of Expenditure/Performance
5.	Reporting

Main and sub-indicators for Receipts Control

No.	Main Indicators
1.	Control of Revenue Forms • Usage of Revenue Forms • Recording of Revenue Forms
2.	Receipt of Monies • Authority/Approval • Security Controls • Receipts Through Mails • Receipts At The Counter
3.	Bank-in Collections
4.	Accounting Control on Receipts/Revenues
5.	Management of Account Receivables

Main and sub-indicators for Expenditure Control

No.	Main Indicators
1.	Accounting Control
2.	Procurement Management • Direct Purchase • General Controls of the Quotation/Tender • Management of Quotation • Management of Tender • Records and Contract Agreements • Central Contracts** • e-Procurement**
3.	Payment Management • Internal Control on Payment Process • Expenditure Requiring Special Approval** • Payment Registers/Records • Bill Register • Management of Petty Cash Imprest

** Applicable to Federal and State Ministries/Departments only

Main and sub-indicators for Trust Funds and Trust Accounts Management

No.	Main Indicators
1.	Trust Funds and Trust Accounts Management
2.	Revolving Fund Management • Car Loans • Computer Loans • Personal Advances • Other Advances
3.	Deposit Accounts Management

Main and sub-indicators for Asset and Inventory Management

No.	Main Indicators
1.	General Controls • Asset Committee • Asset Management Unit • Asset Officer
2.	Collection (Delivery and Acceptance Controls) • Receiving Officer • Collection Regulations
3.	Registration • Registration Administration • Custody of Register • Asset Labelling
4.	Usage, Custody and Inspection • Usage • Custody • Asset Inspection/Stock Verification • Usage of Department's vehicles
5.	Asset Maintenance • Maintenance Regulations • Maintenance of Vehicles
6.	Disposal • Inspection Board • Disposal Procedures
7.	Loss and Write-Off • Management of Loss • Management of Write-off

Main and sub-indicators for Financial Statement

No.	Main Indicators
1.	Financial performance • Surplus/(Deficit) or Profit/(Loss) • Liquidity Ratio
2.	Submission of Financial Statement • Timeliness of Submission of Financial Statement and Annual Report • Completeness of Financial Statement

Appendix 2: A sample bar chart representing result of star rating