



FACTSHEET ON the 2010 Auditor General Report

The Auditor General Report is a document that is released each year by the National Audit Department in which the outcome of an audit of the Federal Government's Financial Statement, Financial Management, and activities and projects undertaken by the various government Ministries/Departments, and the Management of Government Companies is declared and made available to the general public. This factsheet aims to a) give a brief background to the Auditor General's Report and, b) present the overall findings of the report and provide a commentary on them.



Background to the report:

According to article 105 (Auditor General), 106 (Powers and Duties of Auditor General), and 107 (Reports of Auditor General) of the Federal Constitution and the Audit Act of 1957 (Act 62, revised in 1972), the Auditor General has the responsibility to audit the government's financial statement, financial management, and activities of the federal government's Ministries and Departments, as well as the management of Government companies, and submit an evaluation of the findings in the form of reports to His Majesty, Seri Paduka Baginda Yang di-Pertuan Agong, to obtain his consent before tabling the report in Parliament. In order to produce this report, 4 types of audit need to be conducted:

- i. *Attestation Audit –aiming to give an opinion on the Federal Government's financial Statement, as well as whether accounting records were maintained and updated as fit.*
- ii. *Compliance Audit –attempting to evaluate whether the financial management of federal ministries/departments are in accordance with financial laws and regulations.*
- iii. *Performance Audit –evaluating the efficiency, financial or otherwise, of Federal Government Activities.*
- iv. *Management of Government Companies Audit –evaluating the management of Federal management companies.*

The findings of attestation and compliance audit are reported together, but separately from the remaining two parts of the report, which constitute a separate section each, in order to make it easier to find relevant information and to also ensure a greater impact of the issues highlighted.

The Auditor General is appointed by the Yang di-Pertuan Agong, on the advice of the Prime Minister and reports directly to the Yang di-Pertuan Agong and the Parliament –not the government.

The National Audit Department Malaysia is a member of the international organization INTOSAI (International Organisation of Supreme Audit Institutions), an organization that acts as an umbrella organization for the external government audit community. The institution provides a framework for supreme audit institutions within which development and transfer of knowledge is promoted in order to improve government auditing worldwide and enhance professional capacities. Currently, 190 members are part of INTOSAI worldwide, and Malaysia is one of them.

The Code of Ethics given by INTOSAI includes integrity, independence, objectivity, impartiality, professional secrecy, and lastly competence.

As far as auditing standards are concerned, INTOSAI has a very comprehensive list available on its website, and in theory all members should adhere to these standards.

Auditing standards consist of four parts: basic principles, general standards, field standards, and reporting standards. These standards cover an extensive ground, but mainly aim at establishing the independence of government audit departments and their powers to be objective and give a realistic overview of the government's financial situation and activities.

On the Federal Government's Financial Statement for the year ending 31 December, 2010

The audit conducted by the National Audit Department found the Federal Government's Financial Statement for 2010 to be, overall, truthful and a fair view of the financial position of the Federal Government. Furthermore, accounting records were also found to be of acceptable standards, properly maintained and up-to-date.

On the Overall Financial Management Performance

The overall financial management performance of the government has been found better than previous years. The federal Government's revenue in 2010 reached RM159.65 billion, an increase of 0.6% (RM1.01 billion) from the year before. The Accounts Receivable for 2010 was RM20.37 billion. The government allocated RM149.06 billion for operating expenditure; however this amount was insufficient and did not cover the expenses that reached RM151.63 billion. Nine Ministries/Departments exceeded their approved allocation. This resulted in the government having to approve two additional allocations, one to cover this excess, and a second one to cover an excess of expenses of RM1.95 billion.

On the Financial Management of Federal Ministries and Departments

25 Federal Ministries and 35 Federal Departments were audited for the year 2010. The audit has shown that the overall financial performance at the Ministries/Departments level for the

year had improved from previous years. In 2010, the financial management performance of 17 Ministries and 13 Departments was rated as excellent while for 8 Ministries and 22 Departments were rated as good.

It is a requirement of the Treasury that all Controlling Officers/Heads of Department must ensure that responsible officers safeguard public money, stamps or other valuables of any kind in safe boxes, vaults, cash boxes, or other receptacles. In order to ensure this is actually how departments follow procedures, the National Audit Department conducted 243 surprise inspections on Federal Departments/Ministries. The audit concluded that on some occasions public money and valuables were not kept safely, and there were delays in banking in collections, and cash balances in hand differed from records.

For the year 2010, the National Audit Department audited 25 Federal Ministries and 35 Federal Departments for their financial management. The overall results showed an improvement of financial performance. For 2010, the financial management performance of 17 ministries (compared to 10 in 2009) and 13 departments (compared to 4 in 2009) were rated as excellent while 8 ministries and 22 departments were rated as good. Part of the audit were also the Headquarters and 14 state branches of the Road Transport department, and 4 Malaysian Missions Offices abroad, under the Ministry of Foreign Affairs. On some instances, the audit showed that public money and other valuables were not kept safely, and there were delays in banking in collections and cash balances in hand differed from records.

Recommendations by the Auditor General for improvement of the Financial Management of Government Ministries/Departments

- a. Controlling officers/heads of departments to be conducting more comprehensive examination, in order to determine whether the issues underlined by this report also occur in other areas, and take corrective actions.
- b. Functions of Internal Audit Units (IAU) within ministries/departments should be enhanced, by ensuring the staff receives appropriate training and guidance, and that objectiveness is reinforced –evaluation should be made based on aspects of internal control, risk management, and organizational governance.
- c. An Audit Committee should be established at all ministries that would be allowed to take corrective and preventive actions. The audit committee would report to the Financial Management and Accounts Committee chaired by the Controlling Officer.
- d. The controlling officers/heads of Department should be more involved with financial matters and transactions.
- e. The Accountant General should ensure that its inspection Units check the Responsibility Centres (RC) for sound implementation of eSPKB as payments and its supporting documents are kept at the RCs.
- f. All departmental policies, directives and delegation of power shall be made in writing to be more transparent and accountable.
- g. A check and balance system should be established within the department/ministry, in order to avoid unskilled or less knowledgeable officers from using discretion when making decisions.
- h. Imposed surcharge on those who failed to collect/pay accordingly. Surcharge should be also taken against the heads of department/division who failed to take action against subordinates who did not carry out their responsibilities.

On the Activities of the Federal Ministries/Departments

Section 6 (d) of the Audit Act 1957 requires the Auditor General to conduct audits to ascertain whether Government activities have been managed efficiently, financially and otherwise, and in accordance with their objectives. For the year 2010, audits were conducted on various government activities, and in the report, the results of the audit conducted on 53 activities/projects undertaken by 32 Ministries/Departments and the management of 7 companies are revealed. 38 activities undertaken by Government Ministries/Departments are reported in the Auditor General Report. From these, 6 such activities were found to have satisfactory results, even though weaknesses were also present. The report highlighted the weaknesses of each particular activity, and gave a number of recommendations for them to improve.

Weaknesses that emerged from the activities of Government Ministries/Departments:

In general, weaknesses that were identified from the audit conducted by the National Audit Department revolve around:

- a. delay in completion of projects
- b. poor quality of construction works
- c. delays in issuing letters/certificates and signing contracts
- d. arrest/complaint cases taking a long time
- e. monitoring and auditing not conducted comprehensively
- f. enforcement did not adhere to procedures
- g. no standardized/fixed time frames
- h. delay in approving extension of time
- i. work not done according to specifications
- j. not enough time to implement projects
- k. participants not qualified to receive aid
- l. participants not aware they were involved in projects
- m. aid did not come/was not complete
- n. lack of transparency
- o. no imposition of payments/tax collections
- p. tax collection increases not imposed

Recommendations by the Auditor General for improvement of the activities of Government Ministries/Departments

- a. effective monitoring to avoid delays
- b. ensure all defects are repaired during the Defect Liability Period
- c. ensure letters/contracts are issued/signed within the stipulated time.
- d. standardize case settlement periods
- e. ensure checks are conducted before issuing certificates of completion
- f. reports to be made to the relevant agencies about the performance of the contractors/consultants, if their performance is not as expected
- g. enhance monitoring mechanisms
- h. ensure correct and complete documentation of data to support correct statistics
- i. regular monitoring of active licensees who do not submit monthly statements.

j. internal controls to ensure compliance

On the Management of Government Companies

This report looked into the financial performance of 47 Government companies for the period 2007 to 2009, based on their audited financial statements. For three years, 21 companies recorded profit before tax of RM264.94 billion, whereas at the same time, 13 companies incurred accumulated losses of RM1.61 billion. Out of the 21 profitable companies, only 10 companies paid dividends of RM90.10 billion to the Government for 3 consecutive years, while only 11 companies have paid tax of RM78.67 billion for the same period.

Weaknesses that emerged from the Management of Government Companies:

In general, weaknesses that were identified from the audit conducted by the National Audit Department revolve around:

- a. unsatisfactory facilities and surroundings
- b. contracts not well managed
- c. discrepancy in payments collection
- d. infrastructure projects delayed
- e. lack of marketing
- f. no standard operating procedures
- g. un-signed tenancy agreements
- h. no evidence of approval by Board of Directors
- i. delay in approving extension of time
- j. time delays
- k. weaknesses in payment transactions and asset management
- l. audit committees within companies not very effective

Recommendations by the Auditor General for improvement of Management of Government Companies

- a. preparation of a complete policy and procedure for asset management
- b. Board of Directors to review the company's performance and monitor operations and finance
- c. clear and comprehensive marketing strategy
- d. clear evidence of approvals by the Board of Directors
- e. signed contracts
- f. close monitoring to ensure timely completion
- g. detailed planning necessary to avoid wastage of public funds
- h. detailed agreements on responsibilities of parties involved
- i. updating of records for effective control and monitoring

On the Implementation of recommendation of previous Auditor General reports

The report for the year 2008-2009 had made a total of 424 recommendations. Follow-up audits conducted up to 30 April 2011 revealed that the respective parties involved had taken action on 172 (98.9%) recommendations made in the report for year 2008, and 220 (88%) out of 250 recommendations for the year 2009. In the 2010 report, 305 recommendations were proposed as corrective actions to avoid recurrences of similar weaknesses, and the implementation of these recommendations will be assessed and reported in the 2011 report.