

# Audit Report Does Anyon



The Auditor-General's report on the affairs of federal agencies does not make the headlines. But after the report's preparation, some of the most interesting of the

Stories by Bhupendra

**F**OR a document that is the responsibility of a remarkably small number of people, the Auditor-General's 2000 Report is a year after the event, a ringgit to the cent, federal, state and

problems remain unresolved.

Of late, there have been a number of non-governmental organisations and government bodies that have been set up to

This is regrettable as proper accountability of public funds is important. Public money must be properly managed and accounted for, with projects implemented according to plans and targets. The A-G's audit tells us if that is so.

Let us take the 2004 report. The A-G stated that 206 pieces of artwork had gone missing or had been misplaced at the National Art Gallery (NAG). The publicity created by the media led the NAG management to leap into action and trace many of the pieces (see story on page 40 for NAG's reply).

This example illustrates the impact the A-G's office can have on accountability of government bodies. Unfortunately, such swift action by affected parties is the exception rather than the rule. For the most part, the annual A-G's Report has been, to use the words of current A-G Tan Sri Dr Hadenan Jalil in an interview with *Malaysian Business*, 'neglected'.

The only attention paid would probably be at the Ministry of Finance (MOF), where the report is used to get feedback from the various parties. The MOF would compile the feedback into a memorandum for release to MPs. Incidentally, the MOF memo is now prepared by the A-G's office.



Hadenan: The A-G's Report has been neglected

### IS THE PAC DOING ITS JOB ?

Parliament is responsible for studying and taking remedial measures on the A-G's findings. The Public Accounts Committee (PAC) is entrusted by Parliament with the responsibility of being the parliamentary watchdog over public monies.

As such, it is supposed to look into the A-G's Report and compile its findings for submission to MPs. According to current PAC head Datuk Shahrir Abdul Samad, this it has generally failed to do as it lacks the necessary resources and support.

'For 47 years, the PAC did not have a supporting structure - no office room or permanent staff to provide input or research for committee members. Only recently did Parliament give us a room and two staff members,' Shahrir, who also leads the Barisan Nasional (BN) Backbenchers Club, tells *Malaysian Business*.

PAC's membership consists of BN and opposition party members. Shahrir admits that the PAC and Parliament have not done their duty with regard to the A-G's Report. (Hhens concur. 'Parliament is not playing

its proper role in addressing the important issue of accountability by the Executive. Parliament is now controlled by the Executive,' says Datuk Param Cumaraswamy, president of Transparency International Malaysia.

Param says MPs, who are representatives of the people, must use their conscience and seek accountability and transparency. 'If not,

they are in breach of the trust put in them by the people,' he says.

He believes there must be efforts to start a full debate on the role of Parliament and ways to restructure it so that it can play its rightful role.

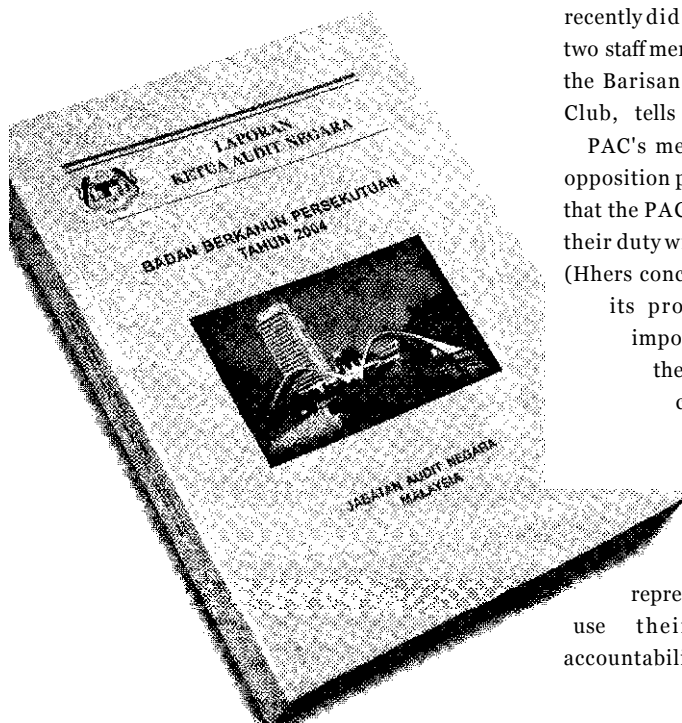
Shahrir says the PAC committee only meets when members can spare the time. For now, it is looking into the issue of the Kuala Lumpur Middle Ring Road II, which is experiencing structural defects. 'Frankly, we can most likely look into the A-G's Report only next year,' he says, adding that he is now reorganising the PAC.

'We have to set up a proper foundation and structure so that when I'm no longer chairman, the PAC will be able to continue functioning,' he says.

The perceived lack of interest in the A-G's Report from MPs, the PAC and the media in general has also to do with the timing of its release. According to Hadenan, the report is normally released to MPs on Budget Day or shortly after. This is a time when the country's public and private sectors, including the mass media, are preoccupied with the Budget proposals being tabled.

MPs receive a lot of literature at around this time. Apart from the A-G's Report with its accompanying memorandum, they get the Budget Speech and the Economic Report. For most of them, it is information overload.

The PAC's duty is to write a report on the A-G's Report. This it had been doing, whenever possible, by using parliamentary staff.



## STATUTORY BODIES THAT WERE LATE IN SUBMITTING FINANCIAL ACCOUNTS FOR 2003

AGENCY	SUBMITTED ACCOUNTS	LATE BY	REASONS
Federal Agricultural Marketing Agency	22 May	1 month	Subsidiary delayed submitting audited accounts
National Accreditation Board	24 May	1 month	Needed signature of the board of directors
Cooperative College of Malaysia	28 May	1 month	No officer prepared the financial statements
Railways Asset Corporation	31 May	1 month	Received financial statement late from Keretapi Tanah Melayu Bhd
Universiti Putra Malaysia	11 June	1.5 month	Needed the signature of Chairman
Tun Abdul Razak Foundation	14 June	1.5 month	Needed the signature of Chairman
Federal Land Development Authority	15 June	1.5 month	Problems with transfer of data in new integrated computer system
Windows and Orphans Pension Fund	31 May	1 month	Initial reporting of statement using accrual concept
Yayasan Pembangunan Ekonomi Islam Malaysia	15 June	1.5 month	Subsidiary firm delayed Ekonomi Islam submitting account statement
Kolej Universiti Teknikal Kebangsaan Malaysia	17 June	1.5 month	Awaiting the signature of Chairman
Bank Simpanan Nasional	23 June	2 months	Awaiting approval from central agency on use of new accounting policy
Lembaga Kemajuan Johor Tenggara	17 June	1.5 months	Subsidiary submitted audited accounts late
Lembaga Kemajuan Pertanian Muda	23 June	2 months	Short of personnel
Perbadanan Tabung Pendidikan Tinggi Nasional	24 June	2 months	Awaiting signature of Chairman
Langkawi Development Corporation	19 July	2.5 months	Subsidiary firm delayed submitting audited accounts and awaiting Chairman's signature
Kumpulan Wang Basiswa Pengajian Tinggi Raja-Raja dan Yang Dipertua Negeri	30 June	2 months	Awaiting Chairman and board's signature
Putrajaya Corporation	23 August	4 months	Subsidiary was late submitting audited financial statement

Source: Auditor-General's Report 2004

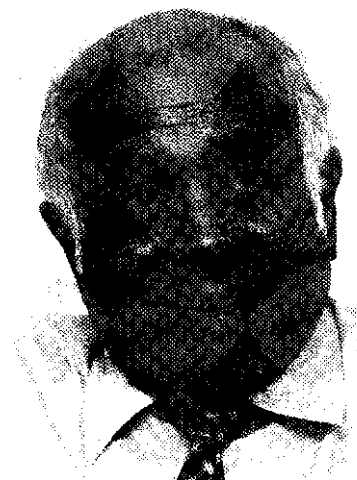
MP and Opposition leader Lim Kit Siang says the PAC has failed to play its watchdog role of scrutinising the audit report. 'The PAC's reports on the A-G's Report are never read, noticed or debated. The last attempt to debate the PAC's reports in Parliament was, to my recollection, in the 1980s,' says Lim.

He says the reports should be scrutinised and debated. 'There is no real culture of accountability among MPs of their Parliamentary responsibilities,' says

the Ipoh Timur MP, who is chairman of the Democratic Action Party (DAP)'s Central Policy and Strategic Planning Commission.

Lim says there is no provision in the Standing Orders to make the PAC's reports obligatory for parliamentary debate.

Do the MPs debate the A-G's Report then? Lim says some references are made to it if there are blatant episodes uncovered, but there have not been proper



Param: MPs must use their conscience

replies from the government except those given in the A-G's (or in the past, the MOF's) memorandum.

### POWERS OF THE PAC & A-G

The PAC should follow up on the A-G's Report as it has more extensive powers than the A-G. Under the Standing Orders, the PAC has the power to 'send for persons, papers and records on accounts and expenditures of such public monies so as to be able to report to Parliament'.

While the A-G does not audit the accounts of cooperatives or the national oil company, Petronas, the PAC, as the custodian watchdog of Parliament, can go beyond that. The Standing Orders provide the PAC the power to look into the following:

1. The accounts of the Federation and the appropriation of the sums granted by Parliament to meet public expenditure;
2. Such accounts of public authorities and other bodies administering public funds as may be valid before the House;
3. Reports of the Auditor-General laid before the House in accordance with Article 107 of the Constitution; and
4. Such other matters as the Committee may think fit or which may be referred to the Committee by the House.

The A-G meanwhile is given powers to audit and report to the Legislature. His powers and freedom are provided by the



Datuk Shahrir Abdul Samad - *Chairman*



Dr Tan Seng Giaw - *Vice-Chairman*



Datuk Mohd Sarit Yusoh



Tan Sri Dr KS Nijhar



Datuk Dr Tan Kee Kwong



Datuk Liow Tiong Lai



Wilfred Madius Tangau



Jimmy Donald



Lim Bee Kau



Hasni Haji Mohammad



Ahmad Shabery Cheek



M Kula Segaran



Datuk Kamarudin Jaffar



Datin Seri Dr Wan Azizah Wan Ismail

Constitution and the Audit Act. The A-G has the power to demand explanations and examine all records including classified documents.

Article 109 of the Federal Constitution says the A-G does not fall under the jurisdiction of the Public Services Commission. And while the Audit Department is part of the Government, it is free of the Executive.

The A-G can call any individual to give information and the person is bound by law to do so. The A-G also has the right to get the views of legal officers and appoint any capable individual to undertake the audit on his behalf.

Currently, the A-G is given a two-year term of appointment and can have the

term extended, as has usually been the case, until he reaches 65.

To ensure he undertakes his duties without fear or favour, the A-G is not allowed to hold any position in any organisation at federal or state level. The A-G may resign from his office but can't be dismissed except on the conditions and in the manner of removal of a Federal Court judge. There has not been any dismissal so far.

Lim claims the A-G's Report does not give a full picture of the system, which he believes could be more frightening.

Hadenan says the audit report is free of any form of government pressure. "The government has never changed a single line in the A-G's Report before its tabling

in Parliament,' he says. However, he admits that 'national interest or policy issues' are not mentioned in the report even though the audit may have unearthed problems there.

The general observation is that the Auditor-General's office's status within the administrative system and its relationship with it and the political system have remained mostly unchanged. The Auditor-General's office can develop only to the extent that it has the support of the administrative and political system. For the A-G's Report to be taken more seriously, political will is needed. Once that is given, efforts to promote transparency and accountability in the public service can take hold.

## ACCOUNTABILITY

Such support has started to trickle in from the administration of Prime Minister Datuk Seri Abdullah Ahmad Badawi in the form of two recent steps. First, the A-G's office has been placed under the Prime Minister himself and second, in his recent Budget speech, ministers were told to act on the findings of the report.

Hadenan says public department heads are sitting in a glass house with everybody looking at them. 'The issue of accountability and integrity must come from within the officers. If everybody professes to the culture of responsibility then the other problems can be solved,' he says.

Param believes for that to happen, the mentality must change. 'There is a need to introduce a leadership code and a code of conduct for officers and ministers which are enforceable. This would inculcate a sense of good governance. We need to introduce these as we aspire to reach the standards in developed countries,' he says.

The need for good governance is undeniable. Every organisation needs it. 'You cannot separate management from internal controls. Internal controls are not just about accounting controls, they are about hard and soft controls like honesty, integrity, competence and experience, and good governance relies on soft controls,' says Lynn Kulasingham, chairman of Boardroom Professional, a corporate governance consultancy. Internal controls, he points out, must be like the thread woven into the fabric.

## COMPONENTS OF THE AUDIT

From the audit perspective, the Audit Department undertakes three types of audits. First, an attestation audit looks at the accounts to see if they show the true picture and meet international accounting standards. If so, the department issues a certificate which is then attached to the respective annual reports.

The practice now is, all statutory body accounts are audited by the Audit Department using private auditors, as part of outsourcing. The major part of the attestation audit is done by private auditors but the certificate to be issued to the statutory bodies is signed by the Audit

Department.

'The statutory bodies' accounts are up to date. The Federal agencies' accounts are 100% perfect except for those of some state agencies,' says Hadenan.

The Audit Department also does a compliance audit, which looks into components like revenue and costs and on whether the agencies follow Treasury instructions. The third component is the performance audit. This is done by the Audit Department, which looks into the activities of ministries, departments and agencies to see how they are planned, implemented and monitored.

Hadenan has brought changes to this

portion of the report. In the past, the A-G's Report only highlighted weaknesses, but it now gives a more balanced picture of components like financial management, systems and procedures. Organisational management is also looked at and evaluated.

'If we find the planning is good, we state so but if there are weaknesses in implementation, we state it. We give a balanced report,' says Hadenan.

The Audit Department has also come out with management audit reports to enable ministers to understand their agencies better. The reports look at the management aspects of the government bodies. 'Some ministers say they don't know what is happening at their agencies. Two years ago I initiated a plan for the Audit Department to come up with a management audit report of each agency. The report gives a second opinion,' says Hadenan, who has spent all his working life in the public service.

The management audit report is updated every year and it covers a few areas - the structure of the organisation including the personnel, the committees and the procedures - and the Audit Department also comments where the loopholes are.

Hadenan says the perception of departments and agencies of the audit process has changed. They now realise they can benefit from the audit reports and are more forthcoming with information and cooperation.

'They can use our report to get money. For instance, the Fire Department got a big allocation from the Treasury after we highlighted its problems. The same thing happened with the Environment Department, which couldn't do enforcement activity because it lacked manpower. We recommended extra manpower and the government gave them 800 new staff,' says Hadenan.

The Audit Department has also started to adopt agencies to help them manage their problems as many suffer from a lack of funds and trained or qualified people.

The 59-year-old former Treasury Secretary says he wants to change the image of his department as a 'fault-

## ANALYSIS OF THE PERFORMANCE OF FEDERAL STATUTORY BODIES IN 2004

Malaysian Fisheries Development Board	G	G	G	G	Good
Kuantan Port Authority	G	G	G	G	Good
Universiti Teknologi Mara	G	G	G	G	Good
Pihak Berkuasa Kemajuan Pekebun Kecil Perusahaan Getah	G	G	G	G	Good
Bank Kerjasama Rakyat Malaysia	S	G	S	G	Good
Universiti Teknologi Malaysia	G	G	G	W	Good
Malaysian External Trade Development Agency	G	G	G	G	Good
Federal Agricultural Marketing Authority	G		S	G	Good
Perbadanan Hal Ehwal Bekas Angkatan Tentera	M	G	G	G	Good
Langkawi Development Corporation	G	S	G	S	Satisfactory
Teachers Provident Fund	G	W	S	G	Satisfactory
Malaysian Handcraft's Development Corporation	S	S	S	S	Satisfactory
Universiti Malaysia Sarawak	G	S	G	S	Satisfactory
Kolej Universiti Teknikal Kebangsaan Malaysia	S	S	S	G	Satisfactory
Kolej Universiti Islam Malaysia	G	S	S	S	Satisfactory
Kelantan Selatan Development Authority	S	S	S	S	Satisfactory
Universiti Malaya	G	S	G	S	Satisfactory
Inland Revenue Board	S	S	S	S	Satisfactory
Companies Commission Malaysia	G	S	S	S	Satisfactory
Terengganu Tengah Development Authority	G	S	W		Satisfactory
Majlis Amanah Rakyat	G	G	W	W	Satisfactory
Malaysian National Film Development Corporation	G	W	G	S	Satisfactory
Universiti Pendidikan Sultan Idris	S	S	S	S	Satisfactory
Malaysian National News Agency	S	W	S	S	Satisfactory
Labuan Offshore Financial Services Authority	S	W	S	S	Satisfactory
Yayasan Pembangunan Ekonomi Islam Malaysia	S	W	S	S	Satisfactory
Johor Port & Tanjung Pelepas Port Authorities	S	S	S	S	Satisfactory
Kemubu Agricultural Development Authority	S	S	W	S	Satisfactory
Bintulu Port Authority	G	W	S	W	Satisfactory
Sabah Electricity Board	S	W	W	S	Satisfactory
Malaysian Institute of Accountants	S	W	W	S	Satisfactory
National Sports Council	G	W	S	W	Satisfactory
RRIM Consult Corporation	W	W	W	G	Weak
The Tin Industry (Research & Development) Board	W	S	W	G	Weak
Railways Asset Corporation	S	W	S	W	Weak
YP MADA	S	W	W	S	Weak

\*0: Organisational management; C: Committee effectiveness; S: System & procedures; F: Financial management  
G: Good; S: Satisfactory; W: Weak

Source: Auditor-General's Report 2004

finder', and his effort is starting to pay dividends.

Auditees are now giving ideas on what they intend to do on the shortcomings identified. The A-G's powers end with the completion of the report. Any criminal breach of trust identified is reported to the head of department.

Hadenan's advice to civil servants is to adhere to the rules. For instance, he says, the head of a department may be directed to do 'certain things'. 'You must bring that matter to the board to let everybody know that this is being instructed,' he says.

He says it is also legally and professionally the responsibility of the heads to do a search on the companies they have to deal with. If they find the company is not up to the job, it's their moral responsibility to tell their superiors,' says Hadenan.

Kulasingham believes the civil service should encourage the practice of 'whistleblowing' and set up toll-free numbers where people can leave messages concerning corruption or fraud.

Underperforming agencies may need a re-look to see if they need to be shut down. Hadenan says the government is considering a review of all statutory bodies,' especially at the state level, and their subsidiary companies. The idea of using key performance indicators (KPIs) to improve accountability is an option but it's something Hadenan is cautious about.

'Implementing KPIs is possible if management can have the power to hire and fire. The head of a private sector company is given freedom to do that, and to borrow money, etc, but that is not the case with the public sector. Heads of department don't have that freedom. The KPIs in the case of statutory bodies should be on achieving targets,' says Hadenan.

### **IT STARTS AT THE TOP**

The Audit Department should be commended for its work. It is playing a big role in promoting accountability in the civil service. Parliament and especially the PAC must do their part. Maybe the Audit Department should do an audit exercise on Parliament to help it come up with ideas on how to solve its shortcomings. We can't expect to have accountability from the lower rungs when the upper rungs fail to play their role and set the example. mb