SECTION 6 IMPROVING THE MANAGEMENT OF FINANCE

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6.1 Strengthening internal audit systems

Among the Government's efforts to strengthen internal control in government agencies is the setting up of Internal Audit Units (IAU). As at the end of 1993, a total of 17 ministries and departments have set up IAUs. The role and responsibilities of the IAU are outlined in Treasury Circular No. 2, 1979 on "Implementation of Internal Auditing in Federal Government Agencies". The IAU is responsible for carrying out independent observations on an agency's activities and operations on a regular basis and to report its findings, as well as its recommendations with regard to corrective measures and improvements, to the agency's top management.

Organisationally, the IAU is a part of the agency where it is set up and is responsible directly to the head of the agency. Operationally, it also receives directives and supervision from the Financial Management Systems Unit (FMSU) in the Ministry of Finance which acts as the central authority to all IAUs in ministries and departments.

The Government has also issued a circular on "Guidelines on the Role and Responsibilities of Ministries, Board of Directors and Chief Executives in the Management of Statutory Bodies" which makes it mandatory for all statutory bodies to set up IAUs. The IAU in the statutory body is responsible directly to the Chief Executive of the statutory body.

The context for change

The Government's emphasis on strengthening internal audit control is to improve the level of accountability among Public Service employees as well as to increase their understanding of the accountability concept regarding effective financial management. The concept of accountability in financial management is closely related to the responsibility of public officers to manage public assets and resources in an efficient, trustworthy and prudent manner.

The concern for greater accountability of the Public Service precipitated the amendment of the Audit Act in 1982. This amendment enhanced the powers and duties of the Auditor General, enabling that official to undertake extensive investigative audit of the activities of government agencies on a much wider scale. Falling within the purview of this extended auditing (known as "management performance audit" or "value for money" audit) is emphasis on the principles of efficiency, economy and effectiveness by which government agencies pursue their departmental objectives. In accordance with the Audit Act, the Auditor General is required to submit his findings to the House of Parliament for the close scrutiny of the Public Accounts Committee (PAC) which acts as a representative of Parliament. The PAC represents the highest control level on public expenditure. Its investigations focus on whether approved funds are disbursed for the purpose for which they have been approved and on whether expenditure has been properly incurred. Its basis of investigation is the Auditor General's Reports which are annually laid before Parliament.

The Auditor General's role and responsibilities are clearly spelt out in the Federal Constitution (Articles 106 and 107) and the Audit Act 1957. The Constitution requires that any money to be spent must be authorised by law and that the public accounts must be audited and reported on by the Auditor General.

Despite efforts to ensure that public expenditure is managed in a thrifty, trustworthy and prudent manner, certain weaknesses still exist. The Auditor General's reports from 1988 to 1992 highlight the commonly found weaknesses in financial management in government departments as follows:

- preparation of budget estimates that exceed actual requirements;
- additional allocations requested by agencies are not expended;
- the Vote Book is not complete and up-to-date;
- payment vouchers are not verified and properly supported by the necessary documents;
- weaknesses in stores/assets management;
- weaknesses in internal control with respect to revenue collection;
- weaknesses in the management of development projects.

Implementing change

Apart from the Parliament, the Ministry of Finance, the Controlling Officers of the various ministries, departments and agencies, the Auditor General and the Public Accounts Committee are all responsible for ensuring greater accountability in the public sector. Although there are in place adequate policies and procedures regarding financial control, there are still weaknesses in areas of revenue collection, expenditure control and store management. Among other reasons, this is due to the failure of management to be involved in financial management and control, delays in submitting annual financial statements and lack of proper record-keeping.

The head of department is not only the one who ultimately determines that all accountability obligations of the department are conformed to, but also the one who creates and sustains an ethos of accountability. The head of department must be the role model and strive to create a culture where the practice of accountability is internalised as a core value within the department. The discharge of accountability obligations must not be treated as a mere routine function that needs to be carried out because of external imposition. In this respect, the head of department should not treat the process of financial auditing as a bothersome annual affair but should strive to provide the necessary information required in a responsible manner.

In addition, there should also be an effective budgeting system to apportion allocations in line with the aspirations and objectives of the Government, supervision and control over the use of human and other assets, an effective and efficient accounting system and the provision of training.

The IAU in the ministry/department is responsible for the following:

- to determine whether the agency's financial operations are properly managed and to ensure that all policies, laws and regulations that are mandatory are followed;

- to review and evaluate systematically the agency's operations regarding their adequacy, efficiency, effectiveness and economy;

- to make recommendations on how to improve the agency's operations in areas that require improvement or require corrective measures;

- to submit independent, objective and timely reports to the head of the agency regarding the agency's operations so that the head of department can assess the agency's current position on such matters as whether plans are implemented according to schedule, objectives are met, public funds are properly utilised, and whether resources are allocated efficiently;

- when necessary, provide information to the central authority to enable it to evaluate and improve general policies on financial management, procedures, systems as well as the nature and scope of the internal audit.

The terms of reference of the IAUs in statutory bodies are as follows:

- to review the organisation periodically in order to determine whether functions such as planning, supervision, directives and control on policies, rules and regulations of management are implemented effectively and in line with set objectives and practices of sound administration;

- to determine the adequacy and effectiveness of the internal accounting system and operational control;
- to determine the accuracy and integrity of financial information and to find ways of identifying, measuring, categorising and reporting this information;
- to study the existing systems to ensure that they conform to set policies, regulations and scope of work (that could have an effect on its operations and reports) and to make suitable recommendations on policies whenever necessary;
- to determine suitable methods to safeguard assets and to verify the existence of these assets;
- to evaluate the benefits and effectiveness of utilising existing resources, identify opportunities for enhancing performance and make recommendations for overcoming related problems;
- to study the organisation's implementation of programmes so as to determine whether the outputs produced are in line with set objectives and whether the implementation was carried out as planned;
- to co-ordinate the functions of the Internal Audit division with the External Auditors;
- to plan, set up and develop computer-based management systems especially with regard to (i) security features; (ii) ability to record documents so that the system developed is able to assist the statutory body to achieve its objectives;
- to submit the annual auditing schedule to the Chief Executive and the Audit Committee for their consideration and approval;
- to submit to the Audit Committee quarterly reports that contain the following:
    - follow-up action taken on important audit findings;
    - improvements made in terms of effectiveness and smoother operations as a result of auditing work carried out;
    - co-ordination between the Internal Audit Unit and the External Auditors so as to avoid duplication of functions;

- planning the auditing work;
- obstacles encountered in carrying out auditing work;

- to report to management on the person(s) responsible for taking action on a particular audit query;
- to ensure that the statutory body takes into consideration the auditor's views before any plan is drawn up and implemented;
- to evaluate all plans and actions taken to ensure they are consistent with audit observations regarding them.

The Circular also requires statutory bodies to set up an Audit Committee with the following functions:

- to study the requirements of the Internal Audit Division including its charter;
- to evaluate the effectiveness and adequacy of the internal control systems;
- to study the auditing plan of the internal audit unit including the scope of work, schedule, membership, as well as co-ordination between the Internal and External Audit;
- to study reports submitted by the Internal and External Audit and make recommendations regarding follow-up action to the Board of Directors;
- to study and advise the Board of Directors on matters pertaining to Financial Statements, prospectus and other financial reports that are produced;
- to study and advise the Board of Directors on matters pertaining to the performance of audit activities and also on other matters as directed by the Board of Directors;
- to monitor compliance to regulations set by the Board of Directors, adherence to behavioural norms set for officers/staff and to initiate investigations on mismanagement;
- to ensure that the statutory body makes the necessary changes in carrying out its work in line with changes in accounting practices as ratified by the Malaysian Institute of Accountants and the International Accounting Standards Committee;

- to carry out other duties as decided by the Board of Directors from time to time.

The Government has decided that the internal audit system in all ministries/departments/agenciesbe further expanded. In line with this decision, the Public Services Department has been instructed to carry out a study for the setting up IAUs in agencies that do not have the unit, and to upgrade those that already exist.

Supporting material

(i) Audit Act 1957 (Revised 1972), Act 62

(ii) Statutory Bodies (Accounts and Annual Reports) Act 1980, Act 240

(iii) Auditor General's Report 1991 (in the national language)

(iv) Treasury Circular No. 2/1979 on Implementation of Internal Auditing in Federal Government Agencies (in the national language)

(v) Treasury Circular No. 2/1985 on Guidelines for the Form and Standard of Financial Statements of Statutory Bodies

(vi) Guidelines on the Role and Responsibilities of Ministries, Board of Directors and Chief Executives in the Management of Statutory Bodies (in the national language)

(vii) The Civil Service of Malaysia – A Paradigm Shift, pp 647-650

6.2 Strengthening external audit systems

Annual financial statements of government agencies prepared by accounting officers have to be audited by the Auditor General. These audited statements together with comments from the Auditor General will then be tabled in Parliament or the State Legislative Assembly as the case may be. This represents one form of control over the management of public funds. The responsibility and role of the Auditor General are as provided for under the Federal Constitution and the Audit Act 1957. Besides delegating his powers to any public officer who is then authorised to exercise powers on his behalf, the Auditor General can also delegate his powers to a non-public officer who is competent to conduct any inquiry, examination or audit and to report to him findings of the inquiry. In this way, the Auditor General can enlist the assistance of professional bodies in carrying out audit.

Auditing is a legislative requirement to safeguard public accountability. It is a kind of check and balance system, ensuring that financial management in the public sector is carried out in a prudent, trustworthy and responsible manner. Auditing requires managers to ensure that:

- all programmes and activities that are implemented achieve their intended objectives;
- officers do not abuse powers with which they have been entrusted;
- all transactions are conducted according to the law and all prevailing rules and regulations.

The context for change

To increase public accountability, three aspects have to be taken into consideration. They are: the existence of an effective budgeting system where funds are allocated in line with government aims and aspirations; optimal utilisation of manpower, assets and services; and an efficient and up-to-date accounting system. In addition, Controlling Officers have to take effective measures to address the Auditor General's comments to ensure that misuse and wastage of funds do not occur. All expenditures have to be planned and in line with rules and regulations. The Vote Book has to be maintained well at all times and adjusted with the Accountant General's Monthly Statement in accordance with Treasury Instruction and Treasury Circular No. 8/1987. In addition, revenue collection and store and asset management have to be improved to avoid loss in revenue and government property.

Among others, the Auditor General is responsible for ascertaining the following:

- whether all reasonable precautions have been taken to safeguard the collection and custody of public monies;

- whether the issue and payment of monies have been made in accordance with proper authority and that payment has been properly chargeable and supported by sufficient vouchers or proof of payment;

- whether the use, control and write-offs of public assets have been made in the proper manner and according to specified regulations;

- whether all accounts and records are well and correctly maintained;

- whether the monies have been expended for the purposes for which they were allocated and the activities for which the money was spent have been carried out in the most efficient manner.

Despite tight financial controls, weaknesses in financial control and management still exist and these weaknesses include weaknesses in revenue collection control, expenditure control and store control. The area of financial management is becoming ever more complex and challenging with the yearly increases in government revenue and expenditure. As such, efforts have to be stepped up to strengthen the capability of the existing financial administrative machinery at all levels of government.

Implementing change

The Auditor General's Report tabled in Parliament/State Legislative Assembly is referred to the Public Accounts Committee (PAC) which acts as the representative of Parliament/State Legislative Assembly to investigate government financial transactions and to prepare reports and recommendations for the purpose of enhancing public accountability. This is the highest level of budgetary control in the government financial system. The PAC's investigations are directed at whether the money approved has been spent according to the purpose for which it is allocated and in accordance with financial rules and regulations.

To date, the Committee has taken follow-up action on several issues which include arrears in the repayment of housing loans, management of receivables and management of Trust Accounts. Some of the action taken recommended disciplinary action against officers and staff involved in the misuse and wastage of public funds and the holding of discussions with agencies involved to identify causes and solutions of problems. In addition, the Committee also analysed the

Auditor General's Reports for state governments and statutory bodies. In the case of statutory bodies, some of the issues identified included the following:

- weaknesses in the maintenance of receivables accounts and loan accounts which resulted in financial loss;
- excess funds held;
- wastage of resources;
- unsatisfactory performance.

In 1992 MAMPU and the Auditor General's Office were instructed to review the format of the Auditor General's Report to overcome the following weaknesses:

- comparative analysis is not widely used and even if used, is restricted to only two years. As a result, performance trends are less discernible;
- presentation techniques could be improved to include the use of highlights and visual representations (graphs, charts, diagrams, photographs, exhibits etc.).

The study recommended that the following points be taken into consideration in preparing the Auditor General's Report:

- comparative analysis of performance should be provided, especially with regard to financial management and productivity for a longer time period, i.e. at least five years;
- facts and figures should be presented graphically wherever possible to facilitate analysis and understanding;
- a more sophisticated presentation format to attract and sustain the interest of readers should be used. In this regard, there is a need to improve quality in terms of better presentation of the report.

Supporting material

(i) Audit Act 1957 (Revised 1972) Act 62

(ii) Improvements and Development in the Public Service 1990, pp 254-255

(iii) Improvements and Development in the Public Service 1991, pp 343-356

(iv) Improvements and Development in the Public Service 1992, pp 439-441

(v) The Civil Service of Malaysia – A Paradigm Shift, pp 637-638

6.3 Achieving an output orientation

Achieving an output orientation in financial management systems has been addressed by:

- assessing value for money, including the development of the Modified Budgeting System;

- activity-based costing and introducing capital charging, including the introduction of the Micro-Accounting System;

- introducing accruals accounting.

These programmes are part of the overall improvement efforts introduced by the Government to improve and strengthen financial management of the public sector. These efforts are important in order to ensure optimal utilisation of funds for the benefit of the people. Efficient and effective financial management is an onerous responsibility and constitutes a very important dimension of sound government administration. The Government has paid special attention to instilling the value of accountability in public sector managers which requires them to manage public assets and resources in an efficient, trustworthy and prudent manner. Specifically, accountability in financial management can be divided into three distinct areas, viz:

- Fiscal Accountability (the responsibility to ensure that accounts are reliable and all transactions are genuine, above suspicion and in accordance with prevailing laws and regulations);

- Managerial Accountability (the responsibility to ensure efficient utilisation of public resources, emphasising prudence to avoid wastage);

- Programme Accountability (the responsibility to ensure that each programme which has been planned and implemented achieves the objectives set in terms of costs and outputs).

The Government has also introduced a Financial Management Award to give recognition to agencies that have achieved excellence in the area of financial management.

Top management commitment is vital in ensuring the success of these improvement programmes. Employee participation and involvement are also important prerequisites. Assistance from central agencies in terms of training and consultation is also required to facilitate the implementation of these programmes at departmental level.

A particular initiative in achieving an output orientation: The Modified Budgeting System

In 1990 the Government introduced the Modified Budgeting System (MBS), a modification of the Programme and Performance Budgeting System (PPBS) which was implemented in Malaysia in 1969. The objective of the MBS is to improve the budgetary process, especially with regard to accountability, allocation of resources/funds and implementation of programmes/activities by government agencies. MBS stresses the relationship between inputs, outputs and the impacts of a particular programme or activity. Under this system, government agencies are required to determine their achievement targets in terms of outputs and impacts of every programme or activity for which there are 'programme agreements' between the agency and the Federal Treasury.

To enable agencies to manage their resources more effectively, MBS allows them certain flexibility in financial management under the "generalised approach to financial control". Under this approach, the Controlling Officer is given greater powers over the use of resources in the agency. For example, the Controlling Officer is given powers to carry out virements between activities under a particular programme without requiring prior approval from the Federal Treasury.

In providing for performance measurement of programmes/activities, the Modified Budgeting Sytem is in line with the 'value for money' concept which strives to achieve three objectives, i.e. economy, efficiency and effectiveness. Through performance measurement, an agency will be able to assess the performance of its programmes and the extent to which such programmes contribute to the achievement of objectives. Two of the performance indicators used under the present budgetary system are efficiency and effectiveness. The budget also emphasised the economy aspect of the 'value for money' concept. Agencies are compelled to comply with rules and regulations pertaining to procurement to ensure that goods and services acquired are low in cost and of good quality.

The MBS was introduced to overcome the weaknesses of the PPBS, among which were:

- in the preparation, examination and implementation of the budget, focus was still at the 'line-item' level;

- there was no emphasis on performance indicators;

- the approach used in budget preparation was 'bottom-up';
- the budget was used as a funds disbursement tool rather than a management tool;
- the delegation of powers in financial decision-making was limited;
- there was a dichotomy between decision-making on financial matters and decisions on policy and implementation of programme/activity.

The implementation of the MBS involves:

- establishing the MBS Implementation Committee;
- strengthening the programme/activity structure;
- establishing performance indicators;
- establishing a management information system;
- establishing a good reporting system;
- establishing a programme evaluation system;
- upgrading the maintenance of the vote book;
- strengthening the cost centre and responsibility centre structure;
- strengthening strategic planning process;
- establishing internal audit system.

It can be seen that MBS is not merely a budgeting system but an integrated and comprehensive management system which involves strategic management, performance measurement, expenditure control, monitoring and evaluation of programmes. It is also closely linked to the New Remuneration System introduced by the Government where individual achievement targets are determined based on the performance of the activity in the programme agreement. MBS necessitates greater involvement of top management in the budgetary process. To ensure success of the implementation of MBS, the Federal Treasury and INTAN have organised intensive training courses for agencies. In addition, the programme and activity structure of each ministry/department is also being reviewed. The implementation of MBS in phases, the first phase being the pilot project stage where MBS was implemented in three agencies (Ministry of Health, Ministry of

Public Works and Ministry of National Unity and Social Development), makes the project manageable and gives the Government time to overcome any shortcomings that may arise.

The MBS has the following characteristics:

- implementation of the concept of expenditure targets;
- preparation of programme agreements and exception reports;
- implementation of cycle of programme evaluation;
- more liberal approach towards expenditure control.

The implementation of MBS in ministries/departments is to be carried out in phases as follows:

Phase I (Budget Year 1991) – 3 ministries

Phase II (Budget Year 1992) – 7 ministries/departments

Phase III (Budget Year 1993) – 7 ministries/departments

Phase IV (Budget Year 1994) – 17 ministries/departments

Phase V (Budget Year 1995) – 17 ministries/departments

A particular initiative in achieving an output orientation: introducing Activity-Based Costing and introducing Capital Charging

The Government issued Development Administration Circular No. 3/1992 which contains guidelines for the implementation of the Micro-Accounting System (SPM) in government agencies. The SPM is a system devised to determine the cost of outputs of an agency and it is a part of management accounting at departmental level. This system provides cost information on the main outputs produced by government agencies. The cost information obtained from SPM enables managers to make the following analysis:

- compare planned output cost and actual costs;
- determine the cost trends for producing similar outputs;
- determine the price to be set for a particular good or service.

Cost analysis assists managers in terms of planning and optimal utilisation of resources in their respective agencies.

SPM was introduced to heighten cost-consciousness among public sector managers. It is another step towards strengthening management accounting at departmental level. The implementation of SPM further improves the strategic planning process and engenders the optimal utilisation of resources. In general, it further enhances accountability in the Public Service.

The implementation of SPM as an output costing system necessitates certain changes to the costing process. These are:

- identification of output;
- coding system for output;
- identification of activities involved in the production of output;
- identification of inputs;
- coding of inputs;
- record-keeping system for inputs;
- new forms;
- streamlining the functions of responsibility centres/cost centres.

The Development Administration Circular mentioned above outlined in detail the SPM Implementation Model. In brief, the total cost of an output can be obtained by:

- identifying all resources used;
- capturing all cost components (direct and indirect costs);
- consolidating cost components.

When capturing direct costs other than labour and material costs, agencies have been asked to take into account capital assets utilisation cost. Such costs should be measured based on the time utilised to produce a specific output. It should be determined by taking into consideration depreciation, maintenance and the cost of operations. Annual depreciation can be determined by various methods such as the straight-line method, decreasing balance, units of output, provision for maintenance, annuity and others.

A government agency can implement the process of costing outputs on an incremental basis. It should set up a SPM Steering Committee, appoint a chief facilitator and set up a SPM working group to implement the new system. The process should not stop once the cost of the outputs are assessed. SPM should also be used as a tool to control cost by comparing the actual cost with the planned cost. In this regard, agencies are required to carry out analysis of output cost.

The Modified Budgeting System (MBS) which was introduced by the Government in the 1990 budget year requires planning and control of inputs, outputs and impact of all activities. It requires measurement and evaluation of government programmes as a means of enhancing quality and productivity in government agencies. One of the requirements of MBS is to identify the cost of producing outputs under each project, programme, activity or sub-activity. SPM provides this cost information.

SPM will be implemented in stages. Four agencies were initially chosen to implement this system: the Accountant General's Department; the Ministry of Health; the Ministry of Public Works; and the Ministry of Information. The Steering Committee on the Micro-Accounting System, set up to monitor the implementation of SPM in government agencies, is to set implementation targets by drawing up a master plan and monitor SPM implementation in agencies. All heads of departments are then required to submit the SPM implementation schedule of their respective agencies to the the Steering Committee.

A particular initiative in achieving an output orientation: introducing Accruals Accounting

All government ministries/departments adopt the cash basis of accounting. When the cash basis of accounting is used, revenues are reported as earned in the period in which cash is received, and expenses are reported in the period in which cash is paid. The recognition of revenue and expense would thus depend on the timing of various cash receipts and disbursements. The major deficiency of this method of accounting is that it ignores the impact on net income and financial position of the liability for accounts payable and the impact of such very real assets as accounts receivable, inventory and prepaid rent. However, ministries/departments have been asked to use the accrual method in the treatment of assets where depreciation of the asset has to be taken into account in the annual financial statements.

Local authorities, statutory bodies and public companies are, however, required to adopt the accrual basis of accounting where they report revenues as they are earned and expenses as they are incurred, not when cash changes hands. In accrual accounting, the impact of events on assets and equities is recognised in the time periods when services are rendered or used, regardless of when the related cash is paid or received.

Supporting material

(i) Treasury Circular Letter No. 1, 1994 on Guidelines for the Preparation of the 1995 Annual Expenditure Estimates (in the national language)

(ii) Development Administration Circular No. 3, 1992, on Manual on Micro-Accounting System (SPM)

6.4 Improving property management

Public properties are those properties which are owned by bodies that are answerable either directly or indirectly to the public and tax payer. They include properties owned by central and state governments, local authorities, public agencies or corporations. Public properties in Malaysia are managed by the Management of Government Buildings Division of the Prime Minister's Department. The Division is responsible for the development of the federal common user buildings, federal chalets and official residences, and the management of land and buildings belonging to the Federal Government which are placed under its supervision and control. It is also responsible for accommodating Federal Government departments in suitable and comfortable buildings whether common user buildings or rented premises. It also manages the usage and maintenance of the official guest house as well as chalets throughout the country. In addition, it is also responsible for the allocation of government quarters to eligible government employees.

Under the Sixth Malaysia Plan, a total of RM142,615,000.00 was allocated for the development of 22 federal common user buildings. The Division has managed the rental of 482,967.31 square metres of office space costing RM10,784,810.10 per month. The Division is the Secretariat for the Supervision of Government Property Committee. All applications from federal departments for the purchase or construction of either office space or staff quarters are processed by the secretariat for consideration and approval by the committee. The said office space or staff quarters can be purchased from private developers either by way of direct purchase or by open tender. In 1992, 14 purchases totalling RM97 million were approved by the committee.

There are 2,534 government quarters and a total of RM2,603,421.21 was spent on 1,452 kinds of minor maintenance jobs. A separate allocation of RM1.8 million was given for the upgrading of 57 units of government quarters in 1992.

The context for change

Public property management policy consists of the following:

- construction or acquisition of suitable properties at minimum costs;
- optimum use of office space without waste;
- maintenance of properties;

- demolition of dilapidated properties and transfer of usable but surplus properties to other users.

Government buildings built in the 1970s, which witnessed a rapid expansion of government building programmes, began to need maintenance and refurbishment by the late 1980s. However, it was noted that there was poor maintenance of government buildings. The problem of poor maintenance can be attributed to several factors. These are:

- financial allocation problems;
- insufficient allocation;
- no central control over allocation; the practice of each government department applying for funds for building maintenance, which is then transferred to the Public Works Department (PWD) as the latter carries out maintenance work for the departments concerned, has given rise to the following problems:
    - delay in transfer of funds to the Public Works Department;
    - allocations used for purposes other than maintenance;
    - depletion of allocations before year-end;
    - maintenance problems;
    - lack of priority for maintenance leading to:
        - ad hoc (unplanned) maintenance;
        - lack of skilled staff capable of doing maintenance work;
        - information on buildings not up-to-date;
        - over-dependence on the Public Works Department.

Implementing change

There seems to be a need for a special central body which has the technical expertise to plan, co-ordinate and implement all government building maintenance.

Since 1978, each government department submits its application for funds to undertake maintenance. The allocation is then issued to the PWD when the latter undertakes the work. PWD is involved directly in the maintenance work of government buildings. Other agencies however are also involved in maintenance. For example, the PWD is responsible for the maintenance of all federal common user buildings while the Management of Government Buildings Division is responsible for the maintenance of federal government quarters in the federal territories as well as guest houses and chalets.

In the case of the Ministry of Defence, maintenance is carried out by the PWD and its own Armed Forces Camps Maintenance Unit. Most of the large departments have their own maintenance units while maintenance of schools is carried out by the PWD with the financial allocation provided by the Ministry of Education. In general one can say that government departments are still very dependent on PWD to implement major maintenance.

The Ministry of Finance has permitted heads of departments to manage maintenance work and undertake minor repairs. This is to expedite maintenance and repair work as well as alleviating the burden on the PWD. Funds for maintenance can be drawn from the operating budget or the developmental budget. The kind of maintenance work that can be carried out under the operating budget includes the following:

- contract to clean buildings;
- contract to maintain and repair air conditioners, engines and electrical fittings;
- maintain and repair water pumps, toilets, fire extinguishers, water tanks, parts of buildings, roads, car parks, piping;
- maintain cleanliness of surroundings of buildings, i.e. grass cutting etc;
- other maintenance works.

The developmental budget can be expended for works like renovations and repair of buildings, replacements of air conditioners and lifts etc.
The PWD undertakes most of the maintenance work of government buildings. The Contract and Supply Management Division in the Ministry of Finance administers an insurance fund for government properties. The Valuation and Property Services Department under the Ministry of Finance provides professional expertise to the federal and state governments, local authorities and statutory bodies on all aspects related to the value and management of real property. In fact Section 4 of the Valuers Appraisers and Estate Agents Act 1981 sets out the role of the department as property managers and estate agents. Where government development projects necessitate the compulsory purchase of alienated (privately owned) lands, the Valuation and Property Services Department may be required to ascertain the fair

and reasonable compensation payable. The various functions of the Department include:

- valuation of all lands and buildings, including furniture, fixtures, trade stocks, plant or machinery and other effects;

- valuation of lands and buildings required for feasibility studies, court proceedings, arbitration or other purposes;

- acting as an estate agent, including negotiating for sales, purchases rental and lettings by agreement, auction or tender;

- property management, project management and the making or checking of inventories of furniture, fixtures, trade stocks, plant or machinery and other effects;

- publication of an annual property market report;

- publication of property transactions to registered valuers, appraisers and estate agents.

The Department is also represented in some of the committees set up by the Management of Government Buildings Division. Though the Department offers property management services to government departments, at present the expertise is utilised in the management of the National Institute of Valuation (INSPEN), the training and research arm of the Department. Regular projects conducted by INSPEN include costing of government buildings.

The government building programme has been in existence since 1974 with the setting up of the Management of Government Buildings Division. The Government is aware that a lot needs to be done in the area of building maintenance.

Supporting material

(i) Valuers, Appraisers and Estate Agents Act 1981, Act 242

(ii) Property Market Report 1993 by the Valuation and Property Services Department, Ministry of Finance (retailed at RM80.00 per copy)

(iii) Annual Report of the Valuation and Property Services Department 1992

(iv) Estate Land Sales, Vol. 4 by the Valuation and Property Services Department (retailed at RM35.00 per copy)

6.5 Improving procurement procedures

Before 1965, government procurement was based on the British system which depended heavily on the Crown Agents. After 1965, the Government started to manage its own procurement, though still based on the British system. The Ministry of Finance is the central authority responsible for the procurement of public stores, services and works. "Public stores" include plants, equipment, furniture, apparatus, materials and supplies purchased from government funds for use or to be held in stock. The Ministry channels its authority of control, supervision and co-ordination of government procurement through one of its divisions, i.e. the Contract and Supply Management Division. Treasury Instructions and Treasury Circular Letters governing procurement procedures are issued under the Financial Procedures Act 1957 (Revised 1972).

Government procurement is implemented in four ways, namely:

- *Competitive bidding*

  In principle, all government tenders are implemented in this manner. This is to ensure healthy competition where all suppliers who qualify are given equal opportunity to participate in the tender. It also ensures that government gets the best offer in terms of the right quality, right quantity, right time, from the right supplier and at the right price.

- *Limited tender*

  This method is usually applicable to projects where the expertise required is not widely available or where, due to time constraints, quick decisions are imperative.

- *Pre-qualification*

  Sometimes in order to save time and shorten the tendering process, the Government uses certain criteria to screen potential suppliers such as their financial and technical capability and experience. Only qualified suppliers are invited to purchase tender documents.

- *Direct negotiation*

  This method is implemented when the purchase concerned has to be effected in the shortest time possible, or where the projects are of such a nature that publicity is not desirable, or when there is only one or two sources of supply for that particular purchase.

The Malaysian Administrative Modernisation and Management Planning Unit (MAMPU) under the Prime Minister's Department has carried out a study in 1992 on the processing and management of tender documents by government agencies. Following the study, Guidelines on the Management and Processing of Tender Documents were prepared. In this guideline, 12 documents were classified as important and were required to be kept in their original form in a safe place. These documents are as follows:

- Advertisements
- Table Tender Documents
- Tender Schedule
- Tender Documents submitted by participating tenderers
- Evaluation Reports
- Recommendations to the Tender Board
- Certificate of Decision of the Tender Board
- Minutes of Meetings of the Tender Board
- Acceptance Letter
- Contract Document
- Approval Letter from Treasury for Closed Tender/Direct Negotiations
- Certificate of Decision of Federal Tender Board

These guidelines are to be made part of the Treasury Instructions to ensure uniformity in the use of rules and procedures regarding the processing and management of tender documents among government agencies. In addition, the Government also issued Treasury Circular No. 2/1991 entitled the Use of New Forms in the Management of Capital Assets, Inventories and Office Supplies aimed at improving the management of capital assets, inventories and office supplies through the use of new assets management records. Changes made include:

- the introduction of a new system of categorisation and definition of government assets;

- the introduction of new formats for assets records to replace old formats found to be unsuitable.

Government assets are classified into three categories, namely capital assets, inventory and office supplies. In line with the classification, the following records were introduced:

- Fixed Assets Register;

- Inventory Register;
- Office Supplies Register;
- Movement of Fixed Assets/Inventory Register.

The context for change

The above-mentioned study was carried out as tender documents constitute an important part of public records and act as a monitoring and control mechanism in the tender process. As a monitoring mechanism, these documents show whether decisions made were in accordance with the set rules and procedures. Tender documents also provide information on how the tender process was carried out. To enable tender documents to be used as a control tool and source of information, they must always be up-to-date, clear, kept safely and easy to retrieve. If these documents are not maintained well as required by regulations, government officers will have difficulty in providing information to those who have a right to the information. Under such circumstances, the principle of accountability would be compromised and the image of the Public Service jeopardised.

Treasury Circular No. 2/1991 was issued as a guide to overcome weaknesses in the management of assets in government departments. These weaknesses arose from ambiguous terminology of assets and the use of incomplete or non-uniform formats of assets records. This has resulted in government assets being poorly maintained, not utilised, written-off and in some cases, not traceable.

Implementing change

The essential prerequisites for improvement efforts of procurement procedures are the following:

a. Costs

Government agencies must realise that one of the main objectives of procurement is to ensure cost-effectiveness of each purchase so that the Government gets the best value for money spent. They must also ensure that purchases are of quality standards, are in the quantities required and that there is no disruption to the supply arrangement.

b. *Skills*

Government employees involved in procurement have to be well trained and have in-depth knowledge of the regulations on tender.

Contractors registered with the Government should be well informed of the conditions of tender and the provisions under the regulations.

c. *Key stakeholders*

Agencies must realise that procurement plays an important role in national development as each development project will involve purchases using government funds. Government procurement can also be used as a tool to achieve government policies as well as to stimulate the growth of local industries.

The Head of Federal Departments Meeting decided that MAMPU should carry out a study on the problems of maintenance and storage of tender documents by government agencies which were raised by the Anti- Corruption Agency. This study was carried out in four ministries viz. the Ministry of Education, Ministry of Health, Ministry of Agriculture and Ministry of Public Works. The study focused on the retrieval of files and tender documents which were managed and kept by government offices in the Federal Territory of Kuala Lumpur and Selangor. A total of 189 tenders were chosen for analysis from a total of 1,369 tenders handled during the three years from 1989 to 1991. As a result of the study, guidelines were prepared by a Technical Committee chaired by MAMPU with members from the Federal Treasury, Audit Department, Anti-Corruption Agency and the National Archives.

With its concern for better financial management and accountability in the Public Service, the Government is constantly assessing the assets and stores management system to ensure the following:

- adherence to current policies and procedures in the acquisition of fixed assets, inventories and office supplies;
- efficient management of fixed assets, inventories and office supplies;
- maintenance of financial records that are proper, up-to-date and that enable easy retrieval of information;
- efficient and economic maintenance of assets and stores, especially regarding:
  - optimal usage;

  - inventory control;
  - proper storage;
  - systematic and up-to-date records;
  - maintenance of stores according to procedures;
  - stock control;

- verification of agency's stocks:

  - documentation;
  - schedule;

- records of action taken pertaining to write-offs.

The Government is also undertaking measures to improve and update its procurement system. Such measures include review of the relevant Treasury Instructions and Treasury Circular Letters, review of the tender system, issue of procurement manuals, organising dialogues, talks and training for government agencies, and greater enforcement. The purpose of the review on the Treasury Instructions and Circular Letters is to reduce its number so that they are clearer and lend themselves to easier reference and implementation. The review of the tender system is aimed at overcoming the problem of tenders being cancelled or re-tendered. Uniform guidelines on procurement to be adopted by statutory bodies and public companies are also being prepared.

Supporting material

(i) Financial Procedures Act 1957 (Revised 1972) Act 61

(ii) Treasury Instructions

(iii) Treasury Circular Letters (in the national language)

(iv) The Civil Service of Malaysia – A Paradigm Shift, pp 640-642

(v) Study on the Processing and Management of Tender Documents by MAMPU (available only in the national language)

6.6 Comparative evaluation of service providers

As the Government continues to focus on the institutionalisation of a performance and results-oriented Public Service, agencies are required to establish a systematic and comprehensive performance measurement system. Performance measurement involves the systematic gathering, analysis and reporting of information on the performance of programmes and activities to management or to relevant authorities who have the right to the information. Information obtained from such a system enables the Government to evaluate the following:

- the extent to which a particular programme or activity has achieved its set objectives (effectiveness);
- the extent to which resources have been used optimally in the implementation of a particular programme or activity (efficiency).

For this purpose, performance indicators that are relevant, suitable and verifiable are to be established by all government agencies. Towards this end, the Government has introduced Guidelines For Establishing Performance Indicators in government agencies which provide a methodology for establishing and using performance indicators in government agencies.

The context for change

In line with set policies, every agency has its own objectives and functions which are carried out through the implementation of specific programmes and activities. To enable agencies to implement their programmes and activities, the Government allocates certain resources which are to be utilised according to prevailing laws and regulations to ensure fiscal, managerial and programme accountability. One of the tenets of accountability is that public funds must be expended prudently in the attainment of the intended benefits to the public and the nation. This requires agencies to measure the performance of their programmes and activities. An important aspect of performance measurement is the establishment of performance indicators for each programme and activity.

Implementing change

It should be noted that there are several factors that can affect the performance of an agency. Among these are the use of technology and the quality of outputs produced. It is important that these factors are reported together with the performance indicators so that management and other authorities can make a more objective evaluation of the agency's performance.

It is important that such reports are prepared in a manner that is easily understood and visually appealing to the reader. The use of graphics is very suitable for preparing an agency's performance reports as it facilitates analysis and understanding and also enhances the attractiveness of the reports.

The process of establishing performance indicators generates voluminous data for the agency. However, this data is only of value if it serves:

- as a source of data for planning and making policy decisions;
- as a basis for allocating resources to programmes and activities;
- to facilitate identification of shortcomings/weaknesses in the management of programmes and activities and also the identification of opportunities for performance improvement;
- as a basis for motivating management and staff to achieve excellence in terms of performance;
- to promote better communication between the governmental leadership and the agency's management;
- to improve the accountability of public sector managers.

The manner and the extent to which performance indicators are used to improve the management systems in an agency depend on two factors:

- support of management for establishing and using performance indicators;
- understanding of officers and staff involved in developing and using performance indicators.

Establishment of performance indicators

An agency can use a performance indicator to measure the performance of a programme or activity. Performance indicators also assist management in planning and implementing corrective measures as well as in improving the decision-making process of the agency. Performance indicators usually evaluate a programme or activity based on criteria such as quantity, quality, timeliness and cost. The characteristics of a good performance indicator are that it is:

- relevant in determining the performance of the programme or activity being evaluated;
- quantitative where possible to enable measurement and analysis;
- cost-effective with regard to its formulation and usage;
- based on verifiable data.

In addition, the number of indicators for each programme or activity should be appropriate to enable analysis and facilitate understanding. Performance indicators are of two types, namely efficiency indicators and effectiveness indicators.

Efficiency Indicators

- cost efficiency (average cost of producing an unit of output);
- workforce efficiency (link between workforce usage and the total number of outputs produced);
- time efficiency (link between goods or services produced by an agency and the time taken to produce them).

Effectiveness Indicators

- Direct Effectiveness Indicators. These indicators provide direct information regarding the achievement of objectives of a particular programme or activity. Usually these indicators are expressed in quantitative terms and are able to show the performance of a programme or activity in an explicit and precise manner. However, under certain circumstances, qualitative indicators could be used to show the performance of a programme or activity. Examples: rate of increase in revenue collection; percentage increase in the passing rate of students according to subjects; decrease in the number of cases of food and water-borne diseases; percentage of foreign workers registered etc.
- Indirect Effectiveness Indicators. Under certain circumstances, it is difficult to identify direct effectiveness indicators. In such cases, indirect effectiveness indicators should be used. An indirect effectiveness indicator is a substitute or 'proxy' indicator that is used to gauge the performance of a programme or activity. Proxy indicators do not provide an explicit reflection of performance and should therefore be used only when direct effectiveness indicators are not available. Examples: number of complaints received for every 10,000 customers (to gauge customer

satisfaction); number of persons who read newspapers for every 10,000 inhabitants (to determine rate of literacy); ratio of teachers to students (to assess quality of teaching in schools); decrease in air/water pollution (to assess the effectiveness of enforcement of laws and regulations).

Data Collection

Agencies are to set up a data collection system for establishing performance indicators. The sources of data will depend on the type of indicators being established but will generally include:

- departmental records;
- records of other departments;
- survey method;
- observation.

Reporting

Information derived from performance indicators should be reported in a manner that facilitates analysis and decision-making by management and other relevant authorities. The reports prepared should enable the relevant authorities to analyse, by way of comparison, an agency's programmes and activities. The different methods of presenting data include the following:

- indicating the trend for a given time period;

- providing a comparison of the characteristics or features that are evaluated before and after the implementation of a particular programme or activity;

- comparing the performance achieved with that of other agencies or private organisations producing a similar type of output;

- comparing the programme/activity performance with that of a similar type of programme/activity in other countries;

- comparing the performance of a programme or activity with the norms set by professional associations, international institutions etc;

- comparing the impact of the programme or activity in the area where it is implemented with areas where the programme or activity was not implemented;

- comparing the performance achieved with the targets set at the outset of implementation of the programme or activity.

Supporting material

Guidelines for Establishing Performance Indicators in Government Agencies, 1993

6.7 End year flexibility

Budgeting in the public sector is an annual issue. There are two types of budget prepared annually, the operating budget and the development budget, also known as the capital budget. The budget is represented in the document known as the Estimates of Federal Expenditure prepared by the Ministry of Finance.

The operating budget consists of two elements. The first is the Charged Expenditure authorised by the Federal Constitution and does not require annual appropriations by Parliament. The second is the Supply Expenditure which requires annual appropriations voted by Parliament in a bill known as the Supply Bill.

The development budget on the other hand is for development purposes and is made possible by charging on the Federal Consolidated Fund through the creation of a trust fund known as the Development Fund, created under the Development Funds Act 1966. Budgeting for development projects follows a different process from that of the operating budget. The operating budget is controlled by the Ministry of Finance through the Budget Division while the approval for development projects lies with the Economic Planning Unit of the Prime Minister's Department. The development projects are linked directly to the long-term planning for the country and are covered under the Five Year Plans.

As explained in the Treasury Instructions (Chapter A, section 6), the Legislature exercises control over the expenditure of the Government through the constitutional provisions. Article 97 of the Federal Constitution and Section 13 of the Financial Procedures Act 1957 says that all revenue from whatever source shall be paid into a Consolidated Fund from which no payments can be issued except when appropriations up to fixed amounts for specific purposes have been authorised by law. Section 13(6) of the Financial Procedures Act also says that any money appropriated for a particular purpose should be surrendered to the Consolidated Fund if not spent for that purpose during the period for which it was granted.

It is therefore clear that in general, government agencies are not allowed to carry forward into the next financial year monies that are not spent in a particular year. However as regards the development expenditure budget, the flexibility lies in the machinery available for reviews pertaining to the management of development projects under the Five Year Plans. In this regard, the Economic Planning Unit being the Secretariat for the National Development Planning Committee which is responsible for approving socio-economic development plans, not only examines plan or programme proposals submitted by ministries/departments jointly with other central agencies like the Treasury, the Public Service Department and the Implementation Co-ordination Unit of the Prime Minister's Department, but also reviews at half-yearly or more frequent intervals annual plans and budgets.

Requests for funds are submitted in certain specified formats together with the relevant information. The requests for funds include amounts to be approved for the budget year or requests for additional allocations.

The context for change

The present financial regulations pertaining to the authorisation and control of expenditure is aimed at preventing misuse of funds and wastage in the Government. As the Auditor General pointed out in his reports, there was a high incidence of government departments unable to spend funds allocated to them. He highlighted the common weaknesses in financial management in government departments as the preparation of budget estimates that exceed actual requirements and additional allocations requested but not expended.

In fact as stated in Treasury Circular Letter No. 1/1994 on Guidelines for the Preparation of the 1995 Annual Expenditure Estimates, the goal of the 1995 national fiscal policy is to sustain strong economic growth and stabilise prices. Towards this end, the Government perseveres in its quest for a balanced budget. There is thus a need to check government expenditure closely and to ensure sound fiscal management. Pertaining to the preparation of the operating budget estimates, the Controlling Officers are reminded to request only those operating expenditure that are absolutely necessary. In this respect, they are to determine the suitability of each programme and activity in line with the objectives of the agency, the agency's capability to implement the programme/activity, as well as the total expenditure to be incurred vis-a-vis benefits which would accrue to the target group. They are also reminded to determine reasonable maintenance costs of capital/inventory and to take into account the holding and use of capital assets and inventory when budgeting for their acquisition. The Circular also reminded Controlling Officers that requests for additional allocations would not be entertained except under extraordinary circumstances.

With regard to the preparation of the development budget estimates, it was stated in the Circular that the Government views seriously shortfalls in the expenditure allocated. Controlling Officers are reminded to plan well and comply with all criteria outlined to avoid allocation not expended or shortfalls in spending. In addition, financial requirements submitted should be in accordance with cash flow needs based on the rate of implementation of the project and accurate forecast.

Implementing change

It is important that Controlling Officers of agencies play their rightful role in the financial management of the agency. This is in view of the fact that they are given wide powers, such as being responsible for controlling the expenditure authorised and also as being the chief accounting officer in respect of all public monies collected, received or disbursed and all public stores received, held or disposed of. In discharging their duties, Controlling Officers can exercise both budgetary control and financial control. Budgetary control can be effected through control of the vote book or other feedback systems like the Modified Budgeting System currently in practice, while financial control is provided for by the financial rules and regulations currently enforced.

Proper planning and implementation has to be given due attention in ensuring prudent financial management. Another prerequisite is more effective cost administration and control. Finally, there has to be full compliance with financial rules and regulations by those who have been entrusted with the responsibility of looking after public funds.

All government departments have been directed to give serious attention to the observations and queries of the Auditor General. They are to ensure that financial management is conducted in an economical, prudent and trustworthy manner. In addition, they are required to take positive steps to reduce administrative costs so that the present increasing trend in government expenditure can be checked. Steps taken in this regard are important for improving the effective management of revenue and expenditure, as well as the economy as a whole.

The Expenditure Control Unit was set up in 1990 in the Treasury to check and prevent misuse and wastage of funds in the Government. The responsibilities of this Unit, among others, are to:

- ensure that government departments follow all the systems and procedures prescribed by the Government;

- ensure that all agencies give due attention to the Auditor General's Annual Report;

- analyse the expenditure pattern of government agencies with the view to prevent the misuse and wastage of public funds;

- assist and ensure that all government departments undertake stringent measures to collect revenue, taxes and other forms of payment due to the Government;

- act as the secretariat to the Public Accounts Committee and to analyse all shortcomings raised in the Auditor General's Reports, as well as to take the necessary steps to ensure that these shortcomings are not repeated;

- prepare Cabinet Papers on the status of public expenditure control for information and further directions of the Cabinet.

New systems have been introduced to enhance the effectiveness of financial management in government departments. These include such systems as the Modified Budgeting System; Integrated Information System of the Central Agencies (SETIA System); Integrated Scheduling System (SIAP System); and a centralised accounting system. Other related financial regulations and systems are the Statutory Bodies (Accounts and Annual Reports) Act 1980; Treasury Circular No. 2/1985 on Guidelines for the Form and Standard of Financial Statements of Statutory Bodies; and Treasury Circular No. 8/1987 on Guidelines for the Maintenance and Reconciliation of Vote Book.

In addition, special courses were held by the National Institute of Public Administration for senior officers involved in financial management of ministries/departments. The purpose of these courses was to provide the officers the necessary exposure to financial management and practices and accountability in the public sector.

Supporting material

(i) Financial Procedures Act 1957 (Revised 1972), Act 61

(ii) Treasury Instructions

(iii) Development Funds Act 1966 (Revised 1989), Act 405

(iv) Improvements and Development in the Public Service 1991, pp 354-357

(v) Treasury Circular No. 8/1987 on Guidelines for the Maintenance and Reconciliation of Vote Book (in the national language)

(vi) Development Administration Circular No. 5/1991 on Guidelines on the Integrated Scheduling System

(vii) Development Administration Circular No. 2/1992 on Guidelines for Development Project Planning and Preparation

(viii) Treasury Circular Letter No. 1/1994 on Guidelines for the Preparation of the 1995 Annual Expenditure Estimates (in the national language)