

**IEBMC 2017**  
**8<sup>th</sup> International Economics and Business Management**  
**Conference**

**TRANSPARENCY AND ACCOUNTABILITY IN PUBLIC SECTOR**  
**FINANCIAL MANAGEMENT SYSTEM**

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***Abstract***

Financial management is a mechanism for a government to demonstrate its performance to the public in a transparent manner and, by doing so, to showcase its accountability in managing public funds. Weaknesses in monitoring of the governments debts are reflective of poor governance which could eventually lead to the demise of the public sector organisations and ultimately the countrywide economy. In Malaysia, the worst case of mismanagement of public funds has been reported by the Auditor General, there was the case of mismanagement of public funds by the Youth and Sports Ministry where it involved the purchasing equipment more than triple of cost than the market price in the year 2009. Therefore, this study is designed to ultimately develop transparency and accountability index that can be used to strengthen and enhance the current Financial Management System (FMS) in Malaysia. To achieve the objective, we will interview a sample of auditors at the National Audit Department (NAD) and accounting officers at the Accountant General's Office, and they will also be asked to fill out a set of questionnaire each. This study is in line with combating corruption goal as one of the national key result areas (NKEAs) which is also stipulated in the 10th Malaysia Plan and the New Economic Model. All these initiatives will transform Malaysia into a competitive, knowledge-based, innovative, and eco-efficient economy that will drive the country towards a higher level of economic prosperity.

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**Keywords:** Corporate governance, financial management, public sector, government, Malaysia.



## 1. Introduction

This study will focus on examining the adequacy of the financial management system in the government agencies as a means to prevent corruption in Malaysia. There is an argument that weaknesses inherent in the public finance and inadequate monitoring of public expenditures have impacted on the government's accountability significantly. Issues such as waste, embezzlement, extravagance and corruption significantly affect the development of a country (National Audit Office, 2008) and funds providers as they expect their government will provide value-for-money (VFM). In this regard, transparency and accountability index could be perceived as a tool for a government to showcase its performance and to the public. This activity includes several key elements of revenue sources, expenditure, the public fund's allocation to various activities and accounting for spent fund (Simson, Sharma & Aziz, 2011). However, managing the public resources seems a vigorous task for the public servant who must fully adhere with the rules and regulations since the government operations need to be explained to the public or local community. It is crucial to understand how various functions fit into the broader system of rules and regulations that govern the management of public resources, and what these function are ultimately intended to achieve. Subsequently, in order to promote transparency and accountability, the Malaysian government has reformed its financial management system through various means such as conversion to an accrual-based accounting system and the use of devolved budgets, performance measurements, transparent costing, and output-based budgeting (Stiles, Karbhari & Mohamad, 2006; Olson, Humphrey & Guthrie, 2001). Even with the introduction of these initiatives, the achievement of a high level of accountability in the financial system is rather a daunting task. Studies have claimed that Malaysia faces a big challenge (Stiles et al., 2006) due to lack of supporting market mechanisms, transport and communication deficiencies, politico-economic instability, and inadequate organisational structures, system and competencies (Warrington, 1997; Batley, 1999).

Service-based organisations, including those of public sector, have been facing a tough challenge to eradicate corruption. Power without accountability is considered as corruption. The more corruption, the less public accountability the organisation be which is indicative of poor governance that could lead to the eventual demise of the organisation. The abuse of power can be found not only in government activities but also in social organisations. In this regard, corruption in the public sector is still a problem even though the new government financial management system has been put into place. The Auditor General (AG) of Malaysia has documented several fraud cases in the Malaysian public sector involving false claims of work done, goods purchased or non-delivery of services and even in government procurement system. Following these fraud cases, the weaknesses of the government's system have attracted a lot of negative attention from the public at large. Every year, after the Auditor-General's report has been tabled in the Parliament, the government will be questioned on its management of public funds. These continuing issues indicate that the actions taken by the government to combat corruption, including the introduction of laws and regulations, is far from effective. This is evidenced from the reports by Transparency International (2013) on the corruption perceptions index which puts Malaysia as a relatively corrupt nation with a score in 2013 and 2012 of 50 and 49, respectively (on a 0-100 scale, with 0 shows highly corrupt and 100 shows very clean). This has also been highlighted in the 10th Malaysia Plan and in the New Economic Model.

### **1.1. Financial management system in Malaysia.**

Malaysia has introduced the Financial Procedure Act 1957 as guidelines for the control and management of the public finances. The act also laid down various financial and accounting procedures, including procedures for the collection, custody and payment of the public moneys of the Federation and of the States; procedures for the purchase, custody, and disposal of public property, other than land, of the Federation and of the States; and other matters connected therewith. Accordingly, the Financial Procedure Act 1957 serves as a formal document for each department in the government agencies to refer to as a basis for discharging its financial duties and responsibilities. According to Engelbreth, Jooste, Muller, Chababa, and Muirhead. (2002), the functions of a financial management system (FMS) include, (1) to authorise expenditure with delegations and financial and personnel norms and standards including subsistence and travel (S&T), miscellaneous payment and ordering of payment transaction, (2) to handle formal and informal financial batch inquiries, (3) to handle payment inquiries from firms, (4) to handle all financial system reports, (5) to clear all balances on ledger accounts, (6) to clear all unallocated expenditure and (7) to keep and maintain registers for internal controls such as for S&T claims and advances. In general, the functions of a FMS are to manage all government activities including mobilisation of revenue, the allocation of these funds to various activities, expenditure and accounting for spent funds (Simson et al., 2011). Being a developing country, the Malaysian government has attempted to bring about significant improvements in its procedures in dealing with corruption in the public sector. Unfortunately, these issues remain unsolved even though the government has sufficient laws and regulations to enable the departments or agencies to take actions against those wrongdoers. According to Tan Sri Dato Setia Haji Ambrin Buang (2008), the current AG, enhancing integrity and transparency is perceived as a vital key for the National Audit Department in dealing with public sector fraud.

In line with the transformation programme, an integrated financial management system (IFMS) consists of the integration of different functions and entities within a shared database that enables the managers to plan and control public resources. It will benefit the Malaysian environment by improving the accountability and transparency of the government operations and the financial control and consistency of information through check and balance mechanism (Heidenhof, Helene, Daryoush & Bobak, 2002). This is in line with the key thrusts of the national agenda leading to the concept of 1Malaysia, Government Transformation Programme (GTP), Economic Transformation Programme (ETP) and 10th Malaysia Plan (National Economic Advisory Council (NEAC), 2010). Additionally, the main goal of the New Economic Model (NEM) is for Malaysia to achieve three main objectives such as high income, inclusiveness, and sustainability. In essence, to achieve a high level income nation, effective financial management system and fighting corruption in are a must. This requires good governance practices in Malaysia. Inclusiveness can be achieved upon reducing the income inequalities, while sustainability can be achieved upon environmental friendly project, by increasing the quality of life and sustained growth path (Raja Abdullah, 2010). As part of the Government Transformation Programme (GTP) also, seven new key results areas (NKRA) have been identified which include fighting corruption making the issue put forth by this research is very relevant to the national agenda.

## **1.2. Combating corruption.**

Corruption can be considered as abuse of power for the benefit of the corruptor himself or their group, will could lead to the poor governance. Corruption also could result in deficiencies and society could suffer because of these activities. As an initiative to eradicate corruption, The Malaysian Anti-Corruption Commission (MACC) has been established in 2008. It is an independent and sole body that manages the corruption and acts as a front runner in anti-corruption initiatives. Many studies observe that the corruption will lessen the credibility and give a negative impact to a country, both nationally and internationally. Consequently, government has to incur a high cost in order to minimise these unethical activities which could affect the national competitiveness. Therefore, as an initiative to combat corruption, law enforcement agencies and society as a whole should pay attention and more sensitive towards the actions for combating corruption in every dimension. From the litigation risk perspective, those who are found to be directly negligent in their work concerning money, be it small or big, will be punished under the Malaysian laws. Apart from ensuring compliance to Malaysian laws, another vital element in the management of public resources is the maintaining of accountability. Accountability is associated with answerability, responsibility, blameworthiness, liability and expectation of accounting (Yaakob, Kadir, & Jusoff, 2009) and is perceived as a benchmark for Malaysia to achieve in order to be considered as a country that practices good governance. Therefore, the existence of effective financial management and the quality of auditors in the agencies are expected to play pivotal role in reducing any manipulation activities and encouraging other employees to be more transparent and accountable and always enhance their professionalism in fulfilling its duties.]

## **2. Problem Statement**

One of the corruption elements receiving increased attention by the regulators is the act of accepting or giving of gratification (Labuschagne & Els, 2006). Gratification includes any money, donation, gift, payment, favour, or any valuable consideration of any kind, received or rendered as an inducement or a reward for ones doing or promising to do any act in which the intention can be considered as self-interest and corruptive in nature (see further the Malaysian Anti-Corruption Commission Act 2009). Any person found guilty of committing this offence shall receive a hefty penalties comprising of imprisonment of up to 20 years and a fine of not less than five times of the gratifications equivalent value or a minimum of RM10,000. Therefore, there is a need of prevention strategies to eradicate the corruption. Improvement in the financial management system is considered as one of the prevention strategies to enable the effective monitoring system in government's operation. Additionally, the presence of auditor as a check and balance mechanism is also expected to contribute to the improved accountability and transparency of the government agencies. As an initiative for auditor to provide reasonable conclusion and assess the trend of financial management of government agencies, implementation of FMAI by NAD is considered as a benchmarking towards striving for excellent in financial management. As this assessment is first time be taken, some improvements need to be assessed for the betterment of the financial management system.

## **3. Research Questions**

This study aims to answer the following research questions:

- Are the existing processes in the government functions adequate in ensuring transparency?
- What are the competencies required for the government auditors and accountants in monitoring the public funds and are they ready to report on any irregularities revealed in the financial management system?
- What could be the strategies via financial management for fighting corruption so as to strengthen the management of public funds?

#### **4. Purpose of the Study**

This study aims;

- To evaluate the current financial management system adopted by the public sector organisations in Malaysia.
- To gauge the competencies level of the government auditors and accountants in detecting fraudulent activities and their willingness to report on those activities
- To develop a model that can be used to strengthen and enhance the current Financial Management System (FMS) so as to eradicate corruption activities and enhance accountability and transparency of government accounting in Malaysia.

#### **5. Research Methods**

For the purpose of this study, the population consists of all auditors from the National Audit Department of Malaysia and accounting officers from the Accountant General Office. This study focuses on the developing the transparency and accountability index based on perception of government auditors and accounting officers because they are the best person to make overall judgments on the current financial management practices. A set of questionnaire survey will be distributed to all the respondents at the respective government agencies in order to evaluate as to how the financial management system is currently being planned, directed, and controlled. In order to get a high response rate, the questionnaire survey will be distributed directly (by hand) to the respondents and supported with snail-mail and online-questionnaires. Furthermore, we will interview selected respondents to determine whether the government auditors and accountants are sufficiently competent in detecting any irregularities in financial management system and whether they will report on any irregularities detected or not. Accordingly, a set of questions will be designed and the identified respondents are required to complete their answers within the stipulated time. In addition, to further understand as to how the current financial management system could play a role in preventing corrupt and fraudulent activities, an interview session will be held with the Auditor General Office.

#### **6. Findings**

The study will provide empirical evidence on the knowledge of government auditors and accountants to ensure effective financial management system so as to combat corrupt and fraudulent activities in the public sector organisations. We could assess the current practices of financial management system and provide some recommendations and contribution for Malaysian government and fulfill the public expectation on providing value-for-money (VFM) services to them. Additionally, this study would

help to enhance the level of accountability, integrity, and transparency of government agencies. This topic is very relevant as one of the many ways in supporting the government initiative and aspiration to become a high income nation that emphasises on the life quality of rakyat through reduced corruption and efficient delivery service.

## 7. Conclusion

The framework developed can be used by various government agencies and departments, including the National Audit Department and National Accountant Department to measure the performance of financial management. The corruption activities are highlighted in the light of the inadequacy of the current system in government operations such as revenues source and expenditure function. Furthermore, this study also could provide additional recommendations to the government law to be more sensitive towards the corruption activities.

## Acknowledgments

We appreciate the research support given by the Ministry of Higher Education (MOHE) Malaysia under the Fundamental Research Grant Scheme (FRGS/1/2016/SS01/UNITEN/03/4).

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