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THE PERFORMANCE REPORTING PRACTICES OF  
MALAYSIAN FEDERAL GOVERNMENT  
STATUTORY BODIES: AN EVALUATION OF  
ACCOUNTABILITY DEVELOPMENT

BY

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INTERNATIONAL ISLAMIC UNIVERSITY  
MALAYSIA

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## ABSTRACT

Over the past decade, awareness and concern among the public have raised towards the accountability of the public sectors. Under new public management, the traditional public sector accountability codes and channels are undergoing profound changes, which emphasize on the role of accounting systems in measuring and evaluating both financial and service performance, promoting disclosure and communicating results to stakeholders. The implementation of performance measurement is one of the efforts done by the public sector organizations to enhance their accountability, however, the performance measurement appears to be more complex and difficult to implement in the public sector under new public management (NPM). The NPM is the adoption of private sector management concepts and styles, where it requires changes in the administrations procedures and delivery of services to the public. It concerned and stressed largely on the outcome or impact-oriented measures, which is contradicting to the traditional performance measurement. The performance measurement and accountability are very much influenced by financial reporting of any organization, where the annual reports are generally recognized as key documents in the discharge of accountability to the stakeholders. It provides means for public sector to fully account for the activities and stewardship of the public resources under their control. A significant numbers of study found to discuss the performance reporting in developed countries, however, in Malaysia, there are very minimal studies discussed on the performance reporting of public sector. This study focuses on the Malaysian statutory bodies, where it aims to provide a basis to understand the performance reporting practices in the Malaysian Federal Government Statutory Bodies (MSBs). The study analyzed 62 annual reports of MSBs for the year 2005/4. Obviously, the performance reporting practices of MSB is at average level. The Malaysian public sector accounting and reporting for public sector were far behind compared to those of the developed countries. More actions and improvements need to be undertaken in order to be more accountable to the stakeholders.

## ملخص البحث

على مدى العقد الماضي، الوعي والقلق بين الجمهور وأثارت نحو مساءلة القطاع العام. في إطار الإدارة العامة الجديدة، التقليدي للقطاع العام والمساءلة والمدونات والقنوات بتغيرات عميقة، التي تؤكد على دور النظم المحاسبية في قياس وتقييم الخدمات المالية والأداء، تعزيز الاتصال والكشف عن نتائج لأصحاب المصلحة. تنفيذ قياس الأداء هي واحدة من الجهود المبذولة من قبل منظمات القطاع العام لتعزيز المساءلة، ولكن قياس الأداء ويبدو أن أكثر تعقيدا وصعوبة لتنفيذ في القطاع العام، في ظل الإدارة العامة الجديدة (NPM) وقد NPM هو اعتماد القطاع الخاص والمفاهيم وأساليب الإدارة، حيث أنها تتطلب تغييرات في الإدارات والإجراءات وتقديم الخدمات إلى الجمهور. وشدد على أنه يتعلق إلى حد كبير على نتائج أو أثر التدابير العملية، وهو يتعارض مع التقليدي لقياس الأداء. قياس الأداء والمساءلة هي تتأثر إلى حد كبير التقارير المالية من أي منظمة، حيث التقارير السنوية المعترف عموما بأنه لا وثائق رئيسية في الاضطلاع المساءلة أمام أصحاب المصلحة. وهو يوفر وسائل للقطاع العام المسؤولية الكاملة عن أنشطة وإدارة العامة للموارد الخاضعة لسيطرتها. وهناك أعداد كبيرة من وجدت الدراسة لمناقشة تقارير الأداء في البلدان المتقدمة، ولكن في ماليزيا، هناك الحد الأدنى من الدراسات التي نوقشت جدا على الإبلاغ عن الأداء في القطاع العام. وتركز هذه الدراسة على الهيئات الماليزية، حيث أنها تهدف إلى توفير أساس لفهم الممارسات والإبلاغ عن الأداء في الحكومة الاتحادية الماليزية الأجهزة الدستورية (. (MSBs) تحليل 62 دراسة التقارير السنوية لل MSBs لعام 2005 / 4. ومن الواضح، أن تقارير الأداء والممارسات من MSB هو في مستوى متوسط. محاسبة القطاع العام الماليزية وتذكر للقطاع العام كانت بعيد وراء مقارن إلى تلك من البلدان المتطورة. أعمال وتحسينات أكثر من الضروري أن يُفترض أن يكونا أكثر مسؤولية أمام أصحاب الحصص.

## APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Accounting.

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Muslim Har Sani bin Mohamad  
Supervisor

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Nazli Anum binti Mohd Ghazali  
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Khaliq Ahmad  
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## DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any degrees at IIUM or other institutions.

SAFLINA BINTI AZIS

Signature.....

Date.....

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

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**THE PERFORMANCE REPORTING PRACTICES OF MALAYSIAN  
FEDERAL GOVERNMENT STATUTORY BODIES: AN EVALUATION OF  
ACCOUNTABILITY DEVELOPMENT**

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## LIST OF ABBREVIATIONS

3ES	Economy, Efficiency and Effectiveness
AGD	Accountant General's Department
CEOs	Chief Executive Officers
CLOFA	Chartered Institute of Public Finance and Accountancy
CSAs	Commonwealth Government Statutory Authorities
e.g.	(exempligratia) ; for example
EPF	Employee Provident Fund
FMI	Financial Management Initiatives
i.e	That is
IOO	Input – Output – Outcomes
IRB	Inland Revenue Board
IT	Information Technology
KMK	Quality Circle Group
KPI	Key Performance Indicators
LA	Local Authority
LLN	National Electric Board
LOFSA	Labuan Offshore Financial Services Authority
MATRADE	Malaysia External Trade Development Corporation
MAS	Micro Accounting System
MASB	Malaysian Accounting Standard Board
MBS	Modified Budgeting System

## **LIST OF ABBREVIATIONS** – *Continued.*

MGTC	Malaysian Government Treasury Circular
MIA	Malaysia Institute of Accountant
MICPA	Malaysian Institute of Certified Public Accountant
MSBs	Malaysian Federal Government Statutory Bodies
MSC	Multimedia Super Corridor
MSCx	Merdeka Stadium Corporation National Sports Complex
NPC	National Productivity Corporation
NPM	New Public Management
NST	New Straits Times
PKPA	Public Administration Advancement Circular
PM	Performance Measurement
RIDA	Rural Industrial Development
SAGA	Standard Accounting System of Government Agencies
SMIDEC	Small and Medium Industries Development Corporation
SPEKS	State Government Standardized Computerized Accounting System
TDC	Malaysia Tourism Development Corporation
TQM	Total Quality Management
UK	United Kingdom
USA	United States of America

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# **CHAPTER 1**

## **INTRODUCTION**

This study aims to provide a basis to understand the performance reporting practices in the Malaysian Federal Government Statutory Bodies (hereinafter known as MSBs). In order to achieve this objective, this study analyzes the reporting disclosures in the annual reports of MSBs. Thus, a sample of 62 annual reports from different types of ministries had been analyzed. It is hope that this study will provide guidance in understanding about the performance reporting practices, as well as the level of accountability of the MSBs.

### **1.1 BACKGROUND OF THE STUDY**

Over the past decade, awareness and concern among the public have raised towards the accountability of the public sectors. It is noted that, the public sector has long been subjected to criticisms for their accountability. The accountability for the public sector is an outcome of the delegation of government authority to the public, which is indirectly closely related to the responsibilities to public (Robinson, 2003; Othman et al., 2007).

There are a significant amount of literature discussed on the accountability of public sector such as Humphrey et al. (1993); Ezzamel and Willmott (1993); Gray and Jenkins (1993); Cochrane (1993); and Gendron et al. (2001). Sinclair (1995) studied of Chief Executives Officers (CEOs) in Australian public sector organizations. The study

was conducted based on the interviews of 15 CEOs, which reveal the chameleon quality of accountability. She found the accountability is continually being socially constructed.

It is multiple and fragmented with full accountability in one dimension requiring compromised accountability in another. Further, she distinguished the accountability to be as the public accountability, political accountability, managerial accountability, administrative accountability, professional accountability and also personal accountability.

The traditional public sector accountability codes and channels are undergoing profound changes, which emphasize on the role of accounting systems in measuring and evaluating both financial and service performance, promoting disclosure and communicating results to stakeholders (Olson et al., 1998; Guarini, 1999). Accountability is meant not merely to control the exercise of public authority and resource employed but also to promote and enhance the public sector performance. Thus, the managerial practices of any organization normally aims to improve the performance, and to demonstrate greater transparency and accountability to their stakeholders (Ghobadian and Ashworth, 1994; Lawrence et al., 1997; Guthrie and English, 1997; Schacter, 2002). Generally, different stakeholders have an interest in different aspects or dimensions of the organization' performance. They would have interest in different performance measures (Wisniewskin and Stewart, 2004).

The implementation of performance measurement is one of the efforts taken by the public sector organizations to enhance their accountability (Kerr, 2003). Nyhan and Martin (1999) defined the performance measurement as the regular collection and reporting of information about the efficiency, quality and effectiveness of government programs. In other words, the performance measurement provides data on how effectively and efficiently public services are delivered.



The function of the performance measurement is to monitor the achievement for organizational and managerial objective, where it plays an important role in planning, controlling and decision-making process. It is actually a tool in guiding an organization to achieve its aims and goals. This is proven by Kloot (1999) and Pollanen (2005). They examined the actual and desired use of performance measures for management and external reporting purposes, as well as perceived impediments to their effective use. They also studied the factors which lead to the use of the performance measurement. They found that, the performance measurement appears to have been accepted as a useful managerial tool and have significant future potential.

However, the public sector is said to be under new public management (NPM) (Hoque and Moll, 2001), where the performance measurement appears to be more complex and difficult to implement due to several factors such as the absence of bottom-line profit, vagueness of objectives, and conflicting objectives among public sector agencies (Othman et al., 2007). The NPM is the adoption of private sector management concepts and styles, where it requires changes in the administrations procedures and delivery of services to the public. The changes known as reforms, which is one of attempting to make the management of public sector organizations more accountable for the efficient and effective deployment of public resources. There are four NPM models: (1) the efficiency drive; (2) downsizing and decentralization; (3) in search of excellence; and (4) public service orientation (Ferlie et al., 1996 cited in Mohamad, 2004).

Moreover, Schacter (1999) stated that the performance measurement implemented under NPM concerned and stressed largely on the outcome or impact-oriented measures, which contradicts to the traditional performance measurement. According to Beeton (1988), the traditional performance measurement focused on the internal measures (input-output measures). The enhanced accountability exercised under NPM necessitates managers to be responsible for the impact of public sector activities

on the lives of society (Schacter, 2002). In other word, managing and measuring performance has been one of the key drivers in reform of the public sector in recent years, as it becomes an important tool to increase accountability

The performance measurement and accountability are very much influenced by financial reporting of any organization (Simons, 2000), which could also be as performance information. According to Guthrie and English (1997), performance information is identified as evidence, which is collected and used systematically to judge the performance of a program. Thus, it is actually very much related to the performance reporting practices disclosed in the annual reports. The annual reports are generally recognized as key documents in the discharge of accountability to the stakeholders (Cochrane, 1993; Hyndman and Anderson, 1995; Connolly and Hyndman, 2004). The annual report, although not reporting on the overall accountability of public sector organization, is generally considered as being a primary medium of accountability (Boyne and Law, 1991; Ryan et al., 2000; Taylor and Rossair, 2000). It provides the means for public sector to fully account for the activities and stewardship of the public resources under their control.

In developed countries, the performance information or performance reporting has been discussed in different types of public sector organizations such as local governments, charities, executive agencies and others. Chandler and Cook (1986); Smith and Smith (1987); Hyndman (1990); Cochrane (1993); Hyndman and Anderson, (1995); Connolly and Hyndman (2004), are the examples of research which discussed on the topic. Generally, they found that the performance information is necessary to discharge the accountability, where the financial and accounting information are often emphasized in determining the accountability.

However, in developing countries, specifically in Malaysia, there are very minimal studies discussed on the performance reporting of public sector (For examples:

Tayib et al., 1999; Syed Ismail et al., 2004; Coombs and Tayib, 2004; Osman, 2004). Basically, the focus of the prior studies were based on local authority, where they found that the Malaysian public sector accounting and reporting for the local authorities were far behind compared to those from the developed countries. The deficiencies in accounting and reporting will consequently impair the credibility as well as fortify the perception that Malaysian public sector is inefficient, highly corrupted and lack of transparency. Although, there were involvements from the accounting professional bodies such as Malaysian Institute of Accountants (MIA) and Malaysian Institution of Certified Public Accountants (MICPA), there is no significant contribution in the development of public sector accounting and reporting in Malaysia (Coombs and Tayib, 2004). Similarly, Rauf et al. (2003) disclosed that despite various measures being taken to improve the quality of services in Malaysian public sector, evidence of lack of accountability still exist. The public sectors are facing various problems in its attempt to achieve accountability. They stated that the problems are no real directives or guidelines on the new system introduced; inadequate number of qualified accounting staff; failure of the internal control systems; resistance to change; failure to recognize relationship between business processes and records; and lack of top management support.

## **1.2 MOTIVATIONS OF THE STUDY**

Based on the discussion above, there are two factors that motivate this study. Firstly, there is lack of academic research on the performance measurement in the Malaysian public sector (Ibrahim, 2002; Mohamad, 2004). With regard to the performance reporting practices, very few studies were found to discuss this area. Tayib et al. (1999), Syed Ismail et al. (2004), Coombs and Tayib (2004) are the only existing studies found to focus on the local authorities. However, none focused on the performance reporting of

MSBs. Thus, it inspires the researcher to evaluate the performance reporting practices of MSBs' annual reports.

Secondly, the issue of the accountability in the public sector has motivated the researcher to come out with the study, specifically focusing on the accountability of MSBs. It is noted that, the public sector has long been subjected to criticisms for their accountability. Bureaucracy, red tape, inefficiency and many others are very synonym with the public sector. Thus, it leads the researcher to evaluate the level of accountability, specifically to the stakeholders of the MSBs.

### **1.3 OBJECTIVES AND CONTRIBUTIONS OF THE STUDY**

There are three (3) research objectives developed in the study. The first is to determine the level of compliance of MSBs. The level of compliance in the study is measured based on the mandatory requirement as disclosed in the Malaysian Government Treasury Circular No.15/1994 (MGTC No. 15/1994). It is important to investigate whether the preparation and presentation of the annual reports of MSBs comply with that requirement.

The second objective is to determine the disclosure level for the major stakeholders. In this study, the major stakeholders consist of target groups, general public, government, treasury, parent ministry and management. Generally, in the chairman statement, it provides the direction of the organization, which some of the discussions may focus to one or more stakeholders. Therefore, this analysis could help to determine the major stakeholders of MSBs.

The third objective is to examine the disclosure level on the performance measurement development of MSBs. The analysis is done to determine types of performance measurement used (i.e. financial and non-financial measures) by the MSBs.

This analysis is based on prior literatures (i.e Connolly and Hyndman, 2004 and Boyne, 2000).

In order to achieve these objectives, the researcher attempts to analyze the annual reports of MSBs for the year 2005/4. For that, three set of disclosure indices have been developed in order to evaluate the disclosure practices in the annual report of the MSBs. As a result, the study will provide a basis to understand the performance reporting practices in the annual reports of the MSBs, together the level of accountability discharged by the MSBs.

#### **1.4 ORGANIZATION OF THE CHAPTERS**

The thesis will be presented in six chapters. Chapter 1 presents the introductory part of the thesis. In this chapter, it discusses the background of the study, followed by the motivations of the study. Finally, the objectives and the contributions of the study are discussed at the end of the chapter.

The review on the literature on the performance reporting in the public sector is discussed in chapter 2. Chapter 3 discusses the Malaysian statutory bodies. It starts with a brief introduction on the meaning of statutory body, and then followed by the history and development of MSBs.

Chapter 4 presents the research methodology adopted by the research. In this chapter, the development of disclosure index is discussed together with the data collection and data analysis.

Chapter 5 deals with the analysis of the data collection together with the findings. Finally, Chapter 6 comes out with the discussion and conclusions for the research. The limitations and suggestions for future research end the discussion of the chapter.

## **CHAPTER 2**

### **PERFORMANCE REPORTING IN THE PUBLIC SECTOR: A REVIEW OF LITERATURE**

#### **2.1 INTRODUCTION**

The aim of this chapter is to present a review of literature in the area of performance reporting in the public sector. In particular, the chapter attempts to review the literature in accountability in relation to the performance reporting practices in the public sector. The discussion in the chapter starts with the review of literature on the accountability and performance measurement in public sector, followed by new public management and performance measurement in public sector. The researcher also discusses the performance reporting and performance measurement in public sector. Finally, the discussion ends with a discussion on the performance reporting in statutory bodies.

#### **2.2 ACCOUNTABILITY AND PERFORMANCE MEASUREMENT IN PUBLIC SECTOR**

The notion of accountability is viewed as being related to the requirement to be answerable for one's conduct and responsibilities (Rutherford, 1983, cited in Chandler and Cook, 1986). Accountability for the public sector is an outcome of the delegation of government authority to the public rather than merely reporting of government's activities publicly (Robinson, 2003). This is consistent with Tocqueville (2000) as cited in Rauf et al (2003), where he mentioned that accountability is an essential element. It is the duty of public officials to report their actions to the citizens, and the rights of the citizens to take actions against those officials, whose conduct the citizen consider unsatisfactory.

In an organizational context, the definition of accountability might imply responsibility to an oversight agency with formal record keeping and reporting requirements as a means of demonstrating compliance, and explicit standards of performance or assessment by this higher authority. However, Jones and Pendlebury (1996) stated that accountability is more than accounting which, normally focus on the information needs of users. Similarly, Rauf et al. (2003), stated that accounting is more than the process of studying the accounting practices by public sector in ensuring accountability to provide services to the public at large. Meaning that, accounting is not only record keeping but it should fulfill the needs of their users. The users or stakeholders of any organization need to have appropriate and sufficient of information, which then help them in making the economic decision.

According to prior study, accountability could be grouped into several types (Steward, 1984; Gray and Jenkins, 1993; Sinclair, 1995; Taylor and Rossair, 2000). For example, in Stewart (1984), he suggests a ladder of accountability, which consists of policy accountability, programme accountability, performance, process accountability, and accountability for probity and legality. However, there are no standardized definitions for the types of accountability highlighted in Stewart's ladder. This might lead to any possible overlaps and also the classifications used highlight that the information requirements vary with the differing bases of accountability. He argues that an accountability information system should report on all levels of accountability, providing financial information and also output and outcome information.

However, in Gray and Jenkins (1993), they proposed three different codes of accountability which result from the combination from different 'rationalities' (i.e. legal, economic, technical, social and political): financial accountability; managerial accountability; and professional accountability.

Over the past decade, concerns have raised about the accountability of public sector organizations, where it has a major impact to the public sectors. The public sector is considered to be part of the economy, which is traditionally managed and controlled by the government on behalf of citizenry (Shim and Seigal, 1995). The government therefore makes decisions on the use of, and is responsible for, the consumption of public sector resources (Jones and Pendlebury, 1992). The government controls public sector resources and uses them to fulfill certain economic roles in order to improve the welfare of the citizenry (Jones and Pendlebury, 1992; Musgrave and Musgrave, 1984). Hercock (1989) noted that the traditional role of the public sector organization is to improve the welfare of the citizens by delivering goods and services that may not be provided by the private sector organizations, at a price that make them accessible to all.

The implementation of the performance measurement in public sector is one of the efforts to enhance the public sector accountability. The performance measurement is closely linked to the concept of accountability (Othman et al., 2007). Townley (1996) reported the performance measurement seen to be a tool in increasing visibility, where the accountability to be put into effect. Further, it is expected to offer the public to evaluate whether the public sector has become responsible and accountable for what they are doing (Robinson, 2003). Kloot (1999) in the earlier study found the performance measurement is important to the public sector in achieving the internal and external accountability. Kravchuk and Schack (1996), however, argue that the performance measurement should only be used as indicators, not tools for management in any organization.

A number of studies found to discuss on the usefulness of performance measurement implemented by the public sector organization. However, the findings on the usefulness of the performance measurement are mixed. Brignall (1993) conducted a study in one of social service department's childcare team in the UK. The study used