PREFACE AND REPORT SUMMARY

AUDITOR GENERAL’S REPORT 2011
ON THE PENANG STATE GOVERNMENT
FINANCIAL STATEMENT AND THE
FINANCIAL MANAGEMENT OF THE STATE
DEPARTMENTS AND AGENCIES

NATIONAL AUDIT DEPARTMENT
MALAYSIA
1. Article 106 and 107 of the Federal Constitution and the Audit Act 1957 requires the Auditor General to audit the Penang State Government’s Financial Statements and to report to the Supreme Head of Malaysia, His Majesty, Seri Paduka Baginda Yang di-Pertuan Agong and His Excellency, the Head of State of Penang. His Majesty would grant his Royal Assent for the tabling of the Report to Parliament while His Excellency will then consent for the tabling of the Report in the State Legislative Assembly. To fulfill these obligations, the National Audit Department has carried out two types of audit as follows:

1.1. **Attestation Audits** - The aim of these audits is to give opinion whether the State Government’s Financial Statements for the year concerned shows a true and fair view and that its accounting records are properly maintain and updated. The attestation audits on the financial statements of the State Statutory Bodies, Local Authorities and the Islamic Religious Council were also undertaken.

1.2. **Financial Management Audit** - This audit is to evaluate the financial management of the State Departments and Agencies in adhering to the rules and regulations. The National Audit Department introduced the rating system based on Accountability Index (AI) to evaluate the financial management since year 2007 and 2011 is the fifth year of its implementation. The purpose of AI is to evaluate objectively and improve the financial management of the State Department and Agencies. AI encompasses elements such as management controls, budgetary controls, receipt controls, expenditure controls, the management of trusts funds/trust accounts/deposits, assets and stores, loans, investment as well as the submission of financial statements. The implementation of AI helps to instill a work culture of best practices. Besides, the culture of “**rectify the normal shortcomings, avoid their recurrences**” not only enhances excellence in financial management but also the integrity, transparency and accountability of the Departments and Agencies.

2. My Report on the State Government’s Financial Statement and the Financial Management of Departments and Agencies in Penang for the year 2011 was prepared based on the audit findings throughout the year. For the purpose of financial statement certification, the audit of the accounting systems and documents related to receipts and expenditures conducted at the State Treasury Office.
3. My Report on State Government’s Financial Statements and the Financial Management of Departments/Agencies for the year 2011 consists of the following:

**Part I** - Certification of the State Government’s Financial Statements for the year ended 31 December 2011  
**Part II** - Financial Analysis of the State Government  
**Part III** - The State Government’s Development Plan  
**Part IV** - Financial Management Performance of the State Departments/Agencies  
**Part V** - Submission, Certification and Tabling of State Agencies Financial Statements  
**Part VI** - Tabling of the Auditor General’s Report and Meetings of the State Public Accounts Committee

4. Apart from fulfilling the statutory requirement, I hope this Report be used as one of the basis to rectify all shortcomings and further enhance the management of public funds. This is vital to ensure that every Ringgit collected and spent contributes towards the development and well-being of the citizens.

5. In my opinion, the financial performance and financial management of the State can be further enhance by focusing on the dividend returns on large amount of government investment and to reduce the outstanding arrears of revenue. In addition, I also would like to urge the State Government to strengthen financial management in the Departments and Agencies especially in the management of assets and inventory as a preparatory in tandem with the Federal Government’s implementation policy of **Accrual Accounting** in 2015. Implementation of Accrual Accounting policies requires that the value of all government assets whether movable or immovable assets and living assets fully reflected in the Financial Statements of the Federal and State Government.

6. I wish to express my gratitude to all officers of the Penang Departments and Agencies whom have given their cooperation to my officers throughout the audit. I would also like to extend my appreciation and thanks to my officers who have worked diligently and very committed to the completion of this Report.

**(TAN SRI DATO’ SETIA HAJI AMBRIN BIN BUANG)**  
Auditor General of Malaysia  

Putrajaya  
11 May 2012
PART I - CERTIFICATION OF THE STATE GOVERNMENT’S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. The Penang State Government's Financial Statements for the year ended was well prepared. All the figures in the financial statements were certified as sufficient supporting documents were submitted. Generally, the Penang State Government financial statements reflected a true and fair view of the financial position of the State Government as at 31 December 2011.

PART II - FINANCIAL ANALYSIS OF THE STATE GOVERNMENT

2. Generally, the Audit analysis revealed that the financial position of the Penang State Government as at the end of 2011 has improved compared to 2010. In 2011, the Consolidated Fund showed an increase of RM2.56 million or 0.2% to RM1,133.74 million compared to RM1,131.18 million in 2010. The balance of Consolidated Revenue Account as at 31 December 2011 has increased by RM138.31 million or 24.2% to RM710.81 million from RM572.49 million in 2010. Revenue collected in 2011 has also increased by RM192.19 million or 46.8% compared to 2010, from a total of RM410.70 million to RM602.89 million. The assets comprising cash and investment remain unchanged at RM1.13 billion. The State Government is recommended to maintain the performance of increasing revenue and prudent spending to ensure continued good financial position. Better investment analysis should be carried out to increase the dividend returns on investment and also make continuous efforts to collect arrears of revenue totaling RM77.84 million as at the end of 2011 which comprise of quit rent, repayment of student loan, installment or rental of the shops and other revenue.

PART III - THE STATE GOVERNMENT’S DEVELOPMENT PLAN

3. For the Tenth Malaysia Plan of Penang to be successful, a ceiling of RM810.29 million was allocated by the State Government for the period of 5 years for 2,489 development projects to be implemented with an approved total allocation of RM557.25 million. Overall, the implementation of development projects under the Tenth Malaysian Plan which is funded by the State Government was very good because 2,455 or 98.6% of 2,489 planned projects have been successfully completed. However budgetary performance was found unsatisfactory because only a total of RM171.05 million out of RM557.25 million allocations was spent.
PART IV - FINANCIAL MANAGEMENT PERFORMANCE OF THE STATES DEPARTMENTS/AGENCIES

4. Financial management of the departments/agencies in 2011 showed an improvement. In 2011, 4 or 57% of the departments/agencies were rated as excellent compared to 3 or 21% in 2010. The other 3 or 43% of the departments/agencies were rated as good in 2011. In 2011 the Islamic Religious Council of Penang was continuously excellent in marks. With the good rating of 71.79% in 2007, the Council has taken proactive effort in enhancing the performance of financial management to reach excellent rating of 91.67%.

PART V - SUBMISSION, CERTIFICATION AND TABLING OF STATE AGENCIES FINANCIAL STATEMENTS

5. As at 10 May 2012 the financial statements of 11 state agencies were certified. 10 agencies obtained Unqualified Audit Certificates while one agency obtained Qualified Certificate. The State Government and agencies are aware of the importance of the legal requirement of tabling the certified financial statements. As at 10 May 2012, only the financial statements of Penang Hill Corporation has not been tabled in the State Legislative Assembly as there were no legal requirement for tabling the financial statements of Penang State Sports Council and the Islamic Religious Council of Penang.

PART VI - TABLING OF THE AUDITOR GENERAL’S REPORT AND MEETINGS OF THE STATE PUBLIC ACCOUNTS COMMITTEE

6. The Auditor General’s Report on the Penang State Government’s Financial Statements and the Financial Management of the State Departments and Agencies for the year 2010 was tabled in the State Legislative Assembly on 24 November 2011. Throughout the year 2011, the State Public Accounts Committee held 3 meetings, one to discuss the Auditor General’s Report for the year 2009 while the other 2 discussed issues pertaining to the Penang State Government.