Seminar Paper

Emerging Issues and Global Challenges in the Public Sector Audit in the 21st Century - Malaysian Perspective

Presented By:

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1. **INTRODUCTION**

Public sector auditing in Malaysia has existed for 100 years since the British Colonisation in the early 20\(^{th}\) century. The establishment of National Audit Department (NAD) of Malaysia was an effort to strengthen financial management of the public sector administration and to ensure all Government rules and procedures have been implemented and complied with. Auditing, the core business of the NAD, involves certification of the financial statements, ensuring that financial management comply with the laws and regulations and evaluating the efficiency and effectiveness on the implementation of programmes and activities by the Government.

NAD is responsible for carrying out audits on all Federal Government Ministries, Departments and Agencies and the State Governments which includes 27 Federal Ministries and 86 Departments, 13 State Governments, 112 Federal Government Agencies, 139 State Government Agencies, 144 Local Authorities and 15 Islamic Religious Councils. Besides this, Government agencies or companies which received grant from the Government or where more than 51% of its share capital is owned by the Government are also subject to audit. As an independent institution, the Auditor General’s Report on the financial position and the implementation of the Government development programmes is tabled in Parliament and State Legislatures annually.
2. EMERGING ISSUES AND GLOBAL CHALLENGES IN THE PUBLIC SECTOR AUDIT IN THE 21ST CENTURY

2.1 In its pursuit of accountability and integrity of the public sector, NAD of Malaysia will continue to play its role in the context of the country’s priorities and challenges. Hence, for the foreseeable future, the NAD will play a critical role in ensuring that what the Government plans for the next 15 years under the Wawasan 2020 concept will be executed efficiently and effectively through the various programmes and projects already announced in The Ninth Malaysia Plan and those that will be announced in the subsequent Tenth and Eleventh Malaysia Plan.

2.2 In this context the NAD will be mindful of the National Mission enunciated by the Right Honorable Prime Minister of Malaysia which clearly anticipate the various challenges the country will face over the next 15 years in its endeavor to become a strong, developed and united nation. The National Mission is premised on five key thrusts:

First: To move the economy up the value chain

Second: To raise the capacity for knowledge and innovation and nurture ‘first class mentality’

Third: To address persistent socio-economic inequalities constructively and productively

Fourth: To improve the standard and sustainability of quality of life

Fifth: To strengthen the institutional and implementation capacity
2.3 Towards this end, the Malaysian Government has made a very strong commitment in which the various programmes and projects for the Ninth Malaysia Plan (2006 – 2010) will cost RM200 billion, excluding RM20 billion under the PFI (Private Finance Initiative).

2.4 The NAD through its financial and performance auditing program will provide an objective assessment of whether public moneys have been well – spent in providing the desired outcomes and impact from government programmes and projects. Of particular concerns to us in the NAD will be unjustified delays in project completion, unjustified cost overruns, poor quality of work, equipment and supplies delays, operationality due to lack of staff or equipment, white elephants, leakages in terms of not meeting the intended objectives and poor maintenance of government facilities. This will undoubtedly pose a big challenge to the NAD given its current staff strength. However, through the annual Auditor-Generals’ Report and his participation in several high – level Government Committees, the voice of the NAD will continue to be heard.

3. Besides the above, there are other challenges that will impact on NAD effectiveness in delivering accurate and timely auditing as enumerated below:

   a. Increase Use of Information Communication Technology (ICT)

      The size and complexity of Government functions and the demand
for timely and accurate information necessitate the use of ICT in the area of record keeping functions by increasing the number of ICT systems. Recently, the Accountant General Department has introduced the Standard Computerised Accounting System for State Government in Malaysia. This system will help the auditors to minimise their time in doing the audit since the preparation of the State Government Financial Statement will be computerised. However, auditors have to ensure sufficient internal control has existed to ensure that the data generated is sufficient, precise and complete. The NAD has to ensure that the auditors are able to understand the whole system by providing adequate training to them. Through capacity building, the NAD hope to audit more ICT programmes of the Government, especially the various E-Government initiatives.

b. Performance-based Assessment Using Key Performance Indicators (KPIs)

The Government of Malaysia has made it mandatory for Ministries/Departments/Agencies to establish norms in their service delivery by defining clearly the outcomes through KPIs and their client charters. In order to assist our auditees to improve their financial management, the NAD is currently studying the feasibility of introducing a star – rating system based on accountability index
which will serve as a platform for ministries, departments and agencies to benchmark their financial management/performance against one another.

c. Development of Human Capital

Under the 9th Malaysia Plan, there will be a greater emphasis in the development of human capital. It is a holistic approach to develop the human resources of Malaysia with appropriate knowledge, training, skills and at the same time possessing “first class mentality” and adhering to high ethical and moral values. The NAD is continuously taking a number of meaningful steps to expand the knowledge, skills and professional competencies of our staff through the newly established National Audit Academy.

d. Transition from Cash to Accrual Based Accounting

The adoption and use of accrual accounting in Malaysia is seen feasible as the privatisation and corporation of major government projects has proven to be successful. The adoption of full accrual accounting system can show precisely the true financial position of the public sector agencies. The main challenge that will be faced by the NAD during the transition to accrual accounting will be the skilled manpower requirement. In this context, NAD has developed
a structured training programme in its strategic plan to meet the challenge.

e. **Transition to International Financial Reporting System (IFRS)**

The transition to IFRS represents one of the biggest challenges to Malaysian reporting entities, especially issues relating to the changeover, which must be confronted to ensure that during the transition period continued integrity of the financial reporting is maintained. It is not just the accounting function that is impacted but the systems, people and resources and market communications. Auditors must therefore understand fully the new requirements of IFRS in the process of auditing.

4. **New Areas of Auditing**

Over the next few years, the NAD will intensify its role in new areas of auditing.

- **Environmental Audit**

  The NAD of Malaysia intends to do more in the area of environmental auditing due to the ever-increasing concern of the Government and the people about mismanagement and deteriorating environment. In relation this, NAD of Malaysia has developed environmental audit guidelines based on INTOSAI document and conducted several courses.
Since the issue on water has become crucial, the NAD has taken an action to set up a Water Supply Audit Unit that will be responsible to audit the management and quality of water supply services in the various States.

- **Fraud Audit**

Fraud has become increasingly important concerns for countries around the world. The role of audit in addressing this concern has come under critical scrutiny. There is an increasing expectation that auditors should, through concerted action, play an effective role in promoting a culture that values honesty, responsibility and accountability in the exercise of authority and utilization of national resources. Due to this importance, the NAD is now in the process of preparing a guideline on fraud as preparation to conduct the audit.
5. CONCLUSION

From this brief presentation, the NAD must obviously move to address the various challenges in order to remain relevant in promoting accountability and integrity in the public sector.

The rapidly changing environment will require continuing emphasis on training of NAD staff - its most precious asset. Efforts will be directed towards exchange programmes for training purposes to further enhance our capabilities and capacities. The NAD will also review its organisation from time to time to ensure that they are compatible with its increasing responsibilities and scope of operation in facing the issues and challenges in the 21st century.

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