



FINANCIAL MANAGEMENT ACCOUNTABILITY INDEX





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Message from the Auditor General

Since the promulgation of the Audit Act in 1957, the National Audit Department (NAD) of Malaysia has undertaken various efforts and introduced various initiatives to enhance accountability and integrity of public fund management in all government ministries, departments and agencies at the Federal and State levels. Besides the attestation, compliance, performance and management audit on ministries, departments and agencies, the NAD also introduced other measures such as audit presence and surprise inspection/spot checks to uplift their financial management capabilities. Beginning 2007 and as part of its continuing efforts to enhance financial management accountability, NAD introduced Financial Management Accountability Index (FMAI) and the results of FMAI is reported in the Auditor General's Report and tabled in Parliament and State Legislative Assembly.

The rationale of introducing the FMAI is to respond to the concern of Government leaders over the instances of non-compliance and internal control weaknesses that were repeatedly mentioned in the annual audit reports. Through the implementation of an objective and transparent star rating system that formed the basis of the FMAI, it is hoped that agencies will be sufficiently induced to take corrective actions on the weaknesses on a timely basis and to undertake the necessary corrective action on shortcomings highlighted in the audit report. Thus, it is hoped that the FMAI will motivate heads of ministries, departments and agencies to walk the talk in ensuring accountability and integrity in their respective ministries/departments/agencies and to diligently resolve the persistent

weaknesses in their financial management.

The FMAI is a first attempt to provide a structured and consistent approach to measure and compare the level of financial management compliance among Federal and State ministries and departments as well as agencies such as Federal and State Statutory Bodies, Local Authorities and Islamic Religious Councils. As a benchmarking mechanism, FMAI can assist the auditees to measure the progress of their financial management over the years.

The quality of financial management performance will be evaluated on nine elements which include organisational management control, budgetary control, receipts control, expenditure control, Trust Funds/ Trust Account and Deposit Accounts management, asset and inventory management, investment management, loans management and financial statement. The FMAI provides scores and ratings on how the ministries, departments and agencies perform the best practice principles in those financial management elements.

I hope this booklet will provide readers with sufficient information of the concept and methodology in implementing the FMAI of financial management. We welcome any views and suggestions that would strengthen the FMAI as a viable instrument to ensure excellence in public sector financial management.



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Auditor General of Malaysia

9 August 2011

PREFACE

Financial management compliance is a fundamental requirement which has to be adhered by the government ministries, departments and agencies at the Federal and State levels to ensure financial accountability of public monies. As of August 2011, there are 25 ministries, 110 departments and 118 statutory bodies at the federal level, and 13 State Treasury offices, 251 departments, 145 statutory bodies, 145 local authorities and 16 Islamic Religious Councils at the state level in Malaysia. It is vital for the ministries, departments and agencies to be aware of the importance of financial accountability and the consequences for failing to account for their financial management performance. Without financial accountability, there will be no effective financial management control.

This booklet provides a concise explanation of the implementation of Financial Management Accountability Index of the Federal and State Government ministries and departments as well as Federal and State Statutory Bodies, Local Authorities and Islamic Religious Councils. It describes the main elements of FMAI, outlines the main indicators and sub indicators of each element as well as the scoring and ratings system relating to the elements of the financial management being assessed.

In applying the FMAI, the auditor should consider the audit objectives and exercise of professional judgment. Federal and State Government ministries and departments are not subject to certain indicators hence their financial management performance should be assessed to the extent applicable to them. It is important that the auditors use professional judgment wisely in giving reasonable scores on the assessment.

By providing unbiased and objective assessments of whether public monies are responsibly and effectively managed to achieve intended results will help the government organisations achieve accountability, improve operations and instill confidence among the public and stakeholders.

INTRODUCTION

The financial management audit is essentially to provide assurance as to whether the integrated collection of financial controlled systems used by an entity to achieve its objectives and goals are effective. It is also to ensure compliance with prescribed managerial policies, plans and procedures as well as statutory requirements of the laws and regulations besides to ensure the completeness and accuracy of the records.

Financial Management Accountability Index is an objective, quantitative assessment of the extend of the financial management performance of the auditees. The auditees involved are the Federal and State Government Ministries, Departments, Statutory Bodies, Local Authorities and Islamic Religious Councils. The introduction of the FMAI is in line with the emphasis on Quality Management System and Key Performance Indicator envisaged by the Government.

The FMAI will enable the government ministries/department/agencies to assess the trend of their financial management performance which will become the basis for benchmarking towards striving for excellence in financial management. This will help them to instill a work culture of best practices among its personnel. The index also serves as a healthy competition among the auditees to improve their financial management. This will enhance accountability, transparency and efficiency of the public delivery system performance. The auditees who have achieved excellent rating can be the role model for the others.

Key Elements of FMAI

There are 9 key elements of FMAI comprising of Organisational Management Control, Budgetary Control, Receipts Control, Expenditure Control, Trust Accounts/Trust Funds/Deposit Accounts, Assets Management, Investment Management, Loan Management and Certification On Financial Statement. Ministries and departments at the Federal and state levels is assessed based on six elements i.e Organisational Management Control, Budgetary Control, Receipts Control, Expenditure Control, Trust Accounts/Trust Funds/Deposit Accounts And Assets Management whilst for the financial management of the States Financial Offices and Treasuries; Federal and State Statutory Bodies; Local Authorities; and Islamic Religious Councils, additional three elements i.e Investment Management, Loan Management and Certification On Financial Statement will be assessed.

i. Organisational Management Control

The role of management is vital in ensuring that financial management is administered efficiently, effectively and achieved the desired objectives. The management of any government agency must comply with the financial management regulations and guidelines, established effective internal controls and monitored the financial performance continuously. The assessment of the organisational management control is to ascertain to what extent the agencies have established an effective structure, system and procedure on financial management.

The organisational management control of the Federal and State ministries/departments; States Financial Offices and Treasuries; Federal and State Statutory Bodies, Local Authorities; and Islamic Religious Council is evaluated based on several main indicators as depicted in **Table 1.**

Table 1
Main Indicators for Organisational Management Control

No.	Main Indicators
1.	Organisation Structure Organisation Chart Delegation of Powers Segregation of Duties Board of Directors* Top Management* Council Members*
2.	System and Procedure Financial and Accounting Regulations* Work Procedure Manual Desk file Surprise/spot checks
3.	Committees and Internal Audit Unit Financial Management and Accounts Committee Audit Committee* Development Action Committee** Management Integrity Committee Internal Audit Unit
4.	Human Resource Management Establishment Work Transition Plan Human Resource Development Panel** Training Surcharge

* Additional Sub-Indicators applicable to States Financial Offices and Treasuries; Federal and State Statutory Bodies; Local Authorities; and Islamic Religious Councils only

** Additional Sub-Indicators applicable to Federal and State Ministries and Departments only

ii. Budgetary Control

Budgetary controls are management's policies and procedures for managing and controlling the use of appropriated funds and other forms of budget authority. The Assessment on the budgetary control aims to ensure that the agency budget is properly planned, prepared, allocated and managed according to the stipulated legislations and objectives. The five main indicators to assess the budgetary control applicable to all Federal and State ministries/departments, Federal and State Statutory Bodies, Local Authorities and Islamic Religious Council are shown in **Table 2**.

Table 2
Main Indicators for Budgetary Control

No.	Main Indicators
1.	Budget Preparation
2.	Allocation Distribution
3.	Approval of Virement/Supplementary Allocation
4.	Monitoring of expenditure/performance
5.	Reporting
6.	Analysis *

* Additional Indicator applicable to Federal and State Ministries and Departments only

iii. Receipts Control

Receipts are broadly classified as tax revenues, non-tax revenues and non-revenue receipts. Tax revenues include both direct (individuals and corporations income tax, petroleum income tax, stamp duty and real property gains tax) and indirect taxes (import duties, export duties, excise duties, sales tax and service tax). Non-tax revenues comprise fees

for issuance of licences and permits, fees for specific services, proceeds from sale of government assets, rental of government property, bank interests, returns from government investments, fines and forfeitures. Non-revenue receipts consist of repayments and reimbursements such as refunds of overpayments in previous years and repayment of loans from the Federal Government's Consolidated Fund received from other Federal Government Agencies and State Governments.

Control of Receipts is to ascertain whether the receipts are effectively managed according to the stipulated procedures, laws and regulations. It is important to ensure the safekeeping, accuracy and completeness of the accounting records. The main indicators of the Receipts Control applicable to all Federal and State ministries/departments, Federal and State Statutory Bodies, Local Authorities and Islamic Religious Council are illustrated in **Table 3**.

Table 3
Main Indicators for Receipts Control

No.	Main Indicators
	Control of Revenue Forms
1.	Usage of Revenue Forms
	Recording of Revenue Forms*
	Receipt of Monies
	Authority/Approval
2.	Security Controls
	Receipts Through Mails
	Receipts Controls
3.	Bank-in Collections
4.	Accounting of Receipts/Revenues
5.	Management of Account Receivables

* Additional Sub-Indicators applicable to States Financial Offices and Treasuries; Federal and State Statutory Bodies; Local Authorities; and Islamic Religious Councils only

iv. Expenditure Control

Government expenditure is categorized according to their functional purpose and objectives. Specifically, there are three types of expenditure to carry out government's initiative; that is charged, operating and development expenditure. Charged expenditure refers to expenditure that is directly charged on the Consolidated Fund which includes royal allowances, remuneration to the Auditor General, Attorney General, Chief Justice & Judges, Speaker of the House of Representative, payment on pension, retirement allowances and gratuities. Operating expenditure is the expenses incurred to finance the routine programmes and activities of a ministries, departments or agencies. Development expenditure is the capital expenditure either for a short or medium term which entails long term returns.

Assessment of expenditure is conducted to determine whether all expenditures have been made according to the controls objective. An appropriate accounting treatment should be carried out for the expenditure incurred and any procurement along with payment should be conducted according to the rules and regulations. Effective controls over expenditures are able to prevent wastage, misappropriation and shortfall to the government. Table 4 represents the main indicators and sub indicators for expenditure control of the Federal and State ministries/ departments, Federal and State Statutory Bodies, Local Authorities and Islamic Religious Council.

Table 4
Main Indicators for Expenditure Control

No.	Main Indicators
1.	Accounting Controls
	Procurement Management
	Direct Purchase
	General Controls on Quotation/Tender
2.	Purchases Through Quotation
	Management of Tender/Direct Negotiation
	Records and Contract Agreements/Central Contracts
	e-Procurement*
	Payment Management
	Authority
	Management on Accumulative Payment*
3.	Internal Control on Payment Process
	Bill Register
	Management of Petty Cash Imprest
	Expenditure Requiring Special Approval*

* Applicable to Federal and State Ministries/Departments only

v. Trust Funds, Trust Accounts and Deposit

Ministries/Departments/Agencies are permitted to maintain a Trust Account under the establishment of the Financial Procedure Act 1957/ Incorporation Act. All moneys paid and received from any person or government bodies which are subject to a trust should be credited to the Trust Account/Consolidated Trust Fund.

The objective of the assessment is to provide assurance over the efficiency and the effectiveness of the controls over the management of

trust accounts. The two main indicators for assessment of the Trust Funds/ Trust Accounts are management of loans/deposits and the management of Deposit Accounts. Both indicators are applicable to all Federal and State Ministries/Departments, Federal and State Statutory Bodies, Local Authorities and Islamic Religious Councils. Summarize of the indicators are shown in **Table 5**.

Table 5
Main Indicators for Trust Funds and Trust Accounts Management

No.	Main Indicators
1.	Trust Funds and Trust Accounts Management
	Revolving Fund Management
	Car Loans
2.	Computer Loans
	Personal Advances
	Other Advances
3.	Deposit Accounts Management

vi. Asset and Inventory Management

The assessment on the asset and inventory management is to ascertain that the assets and inventories of the agency are properly managed, safeguarded and recorded based on rules and regulations. There are seven indicators to assess the asset and inventory management which are applicable to all Federal and State Ministries/Departments, Federal and State Statutory Bodies, Local Authorities and Islamic Religious Councils. Details of it are indicated in **Table 6**.

Table 6
Main Indicators for Asset and Inventory Management

No.	Main Indicators
1.	General Controls Asset Committee Asset Management Unit Asset Officer
2.	Receiving Receiving Officer Receiving Regulations
3.	Registration Registration Management Asset Identification (Labeling)
4.	Usage, Custody and Inspection Usage Custody Asset Inspection/Stock Verification Usage of Department's vehicles
5.	Maintenance Maintenance Regulations (includes asset maintenance)
6.	Disposal Inspection Board Disposal Procedures
7.	Loss and Write-Off Management of Loss Management of Written off

vii. Investment Management

Investment management is essential to protect the interest of contributors and shareholders. The objective of the assessment is to determine whether the investment management is effective and complied with regulation requirements. It is important to ensure that the investment is properly managed in accordance to the approved/authorised limit and

records are appropriately maintained as well as updated. The two main indicators to be assessed for the investment management are Investment Committee (Establishment, composition, functions of committee) and the management of investment (Authority, maintenance of records, monitoring process and system).

viii. Loan Management

The objective of the assessment of loan management is to ensure that the key controls on the process and the management of loan are properly executed and compliance with applicable policies and procedures. The assessment of loan management is based on four criteria: a designated authority to acquire and to grant loan, records maintenance and agreement on loan.

ix. Financial Statement

The objective of the financial statements is to provide the information on the financial position of an entity. Typically it includes Balance Sheet to report on assets, liabilities and equity. The Income Statement provides information of the operation and reports on income, expenses, profit or loss. The financial statement is also accompanied by the statement of cash flows and other forms of financial analysis that are beneficial to the management. The two main indicators to for assessing the financial statement are the financial performance (Profit/Loss, liquidity ratio) and the submission of financial statement (Completeness, timeliness). The indicators are indicated in **Table 7**.

Table 7

No.	Main Indicators
1.	Presentation of the Financial Statement Preparation and presentation of the Financial Statement
2.	Submission of the Financial Statement*
3.	Analysis on the Financial Statement*

* Applicable to Federal and State Statutory Bodies only

SCORING AND RATING

Government Ministry/Department/Agency will be assessed on its performance management by applying the indicators/sub indicators for the respective elements and associated with several criteria. The assessment carries a score of 1 to 4. The score of each indicator/sub indicator will be summed up based on a given weightage in order to derive the overall marks. The basis of the given weightage is determined by the level of criticality or impact of such element to the overall financial management. Generally, the Federal and State Ministries/ Departments, the Federal and State Statutory Bodies, Local Authorities and Islamic Religious Councils are having the same weightage elements for the financial management assessment. However, the Federal and State Statutory Bodies, Local Authorities and Islamic Religious Councils have additional three weightage elements namely investment management, loan management and financial statement. The summary of the weightage are illustrated in **Table 8**.

Table 8
The Financial Management Assessment Matrix





NO.	ELEMENTS	FEDERAL MINISTRY/ DEPARTMENT	STATE MINISTRY/ DEPARTMENT	STATUTORY BODIES	STATE/ AGENCY/ RELIGIOUS COUNCIL
		WEIGHTAGE (%)	WEIGHTAGE (%)	WEIGHTAGE (%)	WEIGHTAGE (%)
A	Organisational Management Control	10	10	10	10
B	Budgetary Control	15	10	5	5
C	Receipts Control	20	10	10	10
D	Expenditure Control	25	10	20	15
E	Trust Account/ Trust Fund/ Deposit	10	15	10	10
F	Asset and Inventory Management	20	15	20	20
G	Investment Management	*	5	5	5
H	Loan Management	*	5	5	5
I	Financial Statement Certification	*	20	20	20
Total		100	100	100	100

* Not Applicable to Federal Ministry/Department

Based on the total marks, the Ministry/Department/Agency will be given star ratings as depicted in **Table 9:**



Table 9
Levels of Rating

Level	Score	Rating
Excellent	90% -100%	
Good	70% - 89%	
Satisfactory	50% - 69%	
Not Satisfactory	49% and Below	

Note: An example of the AI calculation of a Federal Department is shown in **Appendix I**.

There has been a significant improvement on the financial management performance over the past three years. Results of the Financial Management of Accountability Index from 2008 to 2010 were represented **in Table 10**.

Table 10
Comparisons of FMAI Results For The Financial Year 2008 - 2010

LEVEL	2008	2009	2010
Excellent	10	20	47
Good	141	196	289
Satisfactory	61	57	49
Not Satisfactory	-	1	1
Total	212	274	386

CONCLUSION

Sound financial management and internal control are crucial to ensure that the government's fund are safeguarded and moneys are utilised in the most efficient and effective manner. The Financial Management Accountability Index is introduced as an initiative to promote good governance in the public sector financial management. The underlying indicators and criteria that are specific, measurable, achievable and relevant will go a long way to enable the government ministries/ departments/agencies to be assessed and rated objectively based on their financial management performance. The results will be used to identify the areas of weaknesses so that the organization will embark on improvements to enhance its financial operations and performance.

Appendix I

EXAMPLE OF AI CALCULATION OF A FEDERAL DEPARTMENT

ELEMENTS		Compliance (/) or Non-Compliance (x)
A. Organisational Management Control (10%)		
Indicator 1 – Organisation Structure		
1.1	Organisation chart has been prepared, complete and updated	/
1.2	Delegation of power has been properly authorised	/
1.3	Segregation of duties has been made	x
Indicator 2 – System and Procedure		
2.1	Work Procedure Manual has been properly prepared and updated	x
2.2	Desk File has been properly prepared and updated	x
2.3	Surprise Checks has been carried out according to the schedule	/
Indicator 3 – Committees and Internal Audit Units		
3.1	Financial and Management Account Committee has been established	/
3.2	Integrity of the Governance Committee has been established	/
3.3	Audit Committee has been established	/
3.4	Internal Audit Unit has been formed	/

ELEMENTS		Compliance (/) or Non- Compliance (x)
Indicator 4 – Human Resource Development		
4.1	All posts have been filled-up according to the approved Establishment Warrant	/
4.2	Training mechanism has been in place to ensure every personnel has been trained at least 7 days per year	/
B. Budgetary Control (15%)		
1	Budget is properly prepared	/
2	Allocation has been distributed accordingly	/
3	Approval obtained on any virement/transfer/ additional Allocation	/
4	Progress/performance of expenditure has been monitored	x
5	Reports have been prepared and submitted timely	x
6	Budget analysis has been prepared	/
C. Receipts Control (20%)		
Indicator 1 – Control of Revenue Forms		
1.1	Unused Revenue Forms are properly kept in the safe place	/
1.2	Register on the control of revenue forms is properly maintained	/
Indicator 2 – Receipts of Monies		
2.1	Receipts of monies are properly authorised	/

ELEMENTS		Compliance (/) or Non-Compliance (x)
2.2	Collection safety measures are in place	/
2.3	Receipt of monies has been properly managed	/
2.4	Mail register is properly maintained and checked	x
2.5	Cash Book has been properly maintained and checked	/
	Indicator 3 – All collections have been promptly banked	/
	Indicator 4 – Accounting control on receipts/revenues has been properly established	/
	Indicator 5 – Account Receivables have been properly managed	/
D. Expenditure Control (25%)		
	Indicator 1 – Accounting control has been properly established	/
	Indicator 2 – Procurement Management	
2.1	Board of Procurement of an agency for managing tenders has been established	/
2.2	Market research was properly conducted	/
2.3	General controls for quotation/tender have been complied	/

ELEMENTS		Compliance (/) or Non-Compliance (x)
2.4	Contract has been made on behalf of the government and signed by the authorized officer	/
2.5	e-Procurement has been implemented and totally enabled	x
Indicator 3 – Payment Management		
3.1	Vouchers have been signed by authorized officer	/
3.2	Bill registered has been properly maintained	/
3.3	Internal control for payment are adequate	/
3.4	Petty cash has been properly managed	/
E.	Trust Funds and Trust Accounts/Deposit Accounts Management (10%)	
	Indicator 1 – Trust Funds and Trust Accounts have been properly maintained	/
	Indicator 2 – Loans Fund have been properly managed	/
2.1	Vehicles and computers loans have been properly managed	/
2.2	Advances have been properly managed	/
	Indicator 3 – Deposit Accounts have been properly managed	/
F.	Asset and Inventory Management (20%)	
	Indicator 1 – General Controls	

ELEMENTS		Compliance (/) or Non- Compliance (x)
1.1	Government Asset Management Committee has been established	/
1.2	Asset Management Unit has been formed	/
1.3	Asset officers have been appointed by the Controlling officer in writing	/
Indicator 2 - Receipt Of Asset		
2.1	Regulation on the receipt of asset has been adhered	/
2.2	Clear control on the receipt of assets and inventories has been established	/
Indicator 3 - Registration of Asset		
3.1	Asset registers must be maintained and regularly updated	x
3.2	All assets must be labeled or embossed as "Ownership of the Government/name of an Agency"	x
Indicator 4 - Usage, Custody and Inspection		
4.1	Assets have been used for official purpose	/
4.2	Assets and inventories are kept in the safe place	/
4.3	Physical asset verification has been carried out at least once a year	x
4.4	Government vehicles are properly managed	x

ELEMENTS		Compliance (/) or Non-Compliance (x)
4.5	Statement of Purchase of Fuel/Fuel Indent Card has been checked and verified	/
Indicator 5 - Asset Maintenance		
5.1	Regulations on asset maintenance have been complied	/
5.2	Assets have been maintained according to the schedule	x
5.3	Safekeeping of vehicles	/
Indicator 6 - Disposal		
6.1	Disposal of assets and inventories has been properly authorised	/
6.2	Disposal has been done within 3 months of approval	x
Indicator 7 - Loss and Written-Off		
7.1	Losses have been reported accordingly	/
7.2	Investigating Committee has been appointed within two weeks after the preliminary reports	/
Percentage of Compliance		75.49%

Based on the Star Rating System, this agency obtained **3 stars**. In other words, the financial management of this agency is categorised as **Good**.