

Online Annual Performance Report: A Study of Public Sectors in the State of Melaka

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Abstract

The emergence of Information Communication Technology (ICT) and internet has opened up the world due to its distinctive characteristics particularly shared information, real-time access, global and openness. The boom of internet as a favored medium for disclosing financial and non-financial information has changed the way information flow from companies to stakeholders. The traditional way paper-based reporting paradigm continues to diminish and moving toward online reporting. This changing pattern of disclosing organizational performance, however, contradicts in Malaysian public sector environment. Only a few public organizations, departments and agencies or statutory bodies utilize the internet to disclose annual performance report. In fact, such situation is against the aspiration of electronic government (e – government) initiative launched by federal government in 1997. Besides such situation hinder the effort to cultivate better corporate governance in Malaysian public sector. Thus, this paper aims to survey the effort of state of Melaka public sector agencies to disclose their annual performance through online. The final sample consists of 55 public departments, agencies and statutory bodies in the state. The findings is surprising that only 47% or 26 agencies have official websites; 5 websites are treated inactive; and only one agency disclose only highlight of financial information. This explanatory research is very significant in providing initial understanding that there are lots of opportunities to improve the regulatory framework as well as encouraging voluntarily financial disclosure among public sector in the state.

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Introduction

The online annual performance report has become the latest trend of business organization reporting its financial and non-financial results in Malaysia. Many companies nowadays disclose their annual report through internet medium in various formats such as Hyper Text Mark-up Language (HTML) or Adobe Portable Document Format (PDF). With the growth and development of the information communication technology (ICT) as a preferred medium for delivering financial and non-financial information has altered the way information flows from private companies to stakeholders. The traditional paper-oriented reporting paradigm will continue to decrease and move towards online reporting. Companies procure new technologies to process and disseminate such information. In fact information users find new alternative to gather and evaluate companies' information. Online annual performance report is unregulated and the decision to disclose financial or non-financial information via the internet is the entire discretion of management. In fact, many managers adopt voluntary disclosure practice in online reporting. In addition, the level of disclosure, items to be disclosed and the quality of disclosure vary among the companies.

As for public sector, the federal government of Malaysia particularly has taken a major step to recognize the importance of integrating information technology in improving its public financial management. Among the significant milestones are the application of numerous systems such as Branch Accounting System (BAS), Central Integrated System (CIS), Investment and Loan System (ILS), Financial Management Accounting System (FMAS) and Communication Network System (AGNET). Each system has its distinctive objective. For instance FMAS aims to manage and coordinate financial and management systems such as Budgeting Control and Planning System, Asset Management System, Micro Accounting System and Human Resource System. Besides, AGNET helps public agencies in planning and making decision on the directions and policies relating to budget and finance with the availability of up-to-date information.

Information communication technology is an essential element of many Malaysian public sector organizations for managing their public finance, accounting and reporting effectively. In one Asia railways information system, for instance, computerization provided automated monitoring and comparison functions that would have been very hard to achieve using a non-computerized system (Heeks, 1998). Information communication technology provides a reporting of information that transmits information from the source decision makers to the financial users. At best, ICT offer an openness that compares financial information to pre-set norms and alerts recipients when there is some deviation.

Consequently, from the put forward arguments, this paper aims to examine annual performance report among public sector via internet. The paper focuses the situation in Melaka – one of the states in Malaysia.

Legal Settings of Public Sector Accounting In Malaysia

In Malaysia, the Malaysian Association of Certified Public Accountant (MACPA) as per Accounting in Public Sector Guideline No. 1 (1990) defines public sector to include federal (central), state and local government. It also covers any entities owned by federal, state or local government and any entity established under any Act of Parliament, which requires the presentation of the annual financial statement to the Parliament. Another important element, the public sectors are not concerned with profit taking. Instead public sectors are more concerned in providing continuity and improvement of services.

Public sector accounting includes the process of studying the accounting practices by those public sector organizations in ensuring accountability in providing services to the public at large. Besides, Omar (2001)

emphasizes on the concept of internal accounting and reporting through the use of budgets and preparation of various financial reports in public sector accounting. Such practices in Malaysia comprises three components, which are (1) maintenance of books and records especially Vote Book. Vote book is defined as a financial record that must be kept by the government agencies for recording expenditure, liabilities and changes in budget, (2) compliance with rules and regulation such as Financial Procedure Act 1957, Audit Act 1957, Treasury Instructions and Treasury Circulars and (3) preparation of reports and statements – Consolidated Revenue Account, Consolidated Loan Account, Consolidated Trust Account and Statement of Assets and Liabilities.

As part of Malaysia, Melaka's public sector performs the same accounting practice and governed by the established rules or regulation. The executive authority in Melaka State Government is vested in the Yang Dipertua Negeri assisted by the State Executive Council who is headed by the Chief Minister. The administrative machinery of the state is headed by the State Secretary and financial aspect is administrated through State Financial Officer. Examples of Melaka State departments are Chief Minister Department, Town Planning Department and Drainage and Irrigation Department. Besides, there are several statutory bodies formed under the Melaka State Legislative Enactment such as State Economic Development Corporation (SEDC), State Library Corporation, Melaka Foundation and Water Supply Incorporation.

The Governmental Accounting Standards Board (GASB) in 1984 defined public sector financial reporting as "not an end in itself but is intended to provide information useful for many purposes. Financial reporting helps fulfill government's duty to be publicly accountable. Thus, the major purpose of financial reporting in the public sector is to demonstrate compliance with legal and contractual provisions, where it will improve the accounting and reporting practices of these entities. Financial reporting enforces the provisions of the Federal Constitution, the Financial Procedure Act 1957, Treasury Instructions and Treasury Circulars. For example, Treasury Circular No. 15/1994 provides guidelines for the preparation and presentation of the Annual Reports and Financial Statements of Statutory Bodies. The objectives of financial reporting in public sector consist of compliance and stewardship aspect, basis of planning, performance evaluation, quality of services, and statement of achievement and provide facts and figures. In short, financial reporting serves as an important instrument of accountability as it discloses a comprehensive overview of the organization's financial characteristics of performance and financial position including information about all assets and liabilities of the government agency.

Annual report of public sector is also known as public account. It is prepared to meet statutory, accounting standard and auditing requirements. Starting with the Federal Public Accounts 2000, such annual report is presented in one package containing the Balance Sheet, Statement of Memorandum Accounts and Notes to the Public Accounts. Balance sheet covers statement of cash, statement of investment and statement of consolidated revenue account. Statement of Memorandum Account includes assets and liabilities, where as notes to the public accounts include accounting policy, accounting basis, accounting practice, accounting entity and other notes. Users of public sectors' annual report or public account consist of legislators, government executives, government auditors or special monitoring committee, taxpayers, investors, suppliers or vendors, employees, voters and non-governmental organization.

Literature Review

Organization around the globe has successfully incorporated the ICT or internet medium for marketing, communication, advertising and also financial reporting purposes. It is expected the emergence of such trend will dramatically change the traditional form of financial reporting to the application of financial database. In Malaysia too, the trend has change drastically. Many business organizations has set up the official web site with the financial information report which offer shared, real time, global and openness characteristics to financial statement users. In

fact, the companies now place greater emphasis on the quality and quantity aspect of online information by establishing specialized website teams and units.

Numerous studies have been carried out to investigate the usage of ICT and internet medium in financial reporting especially among business organizations. The summary of those studies are graphically presented in the following Table 1. This summarization is obtained from the study conducted by Haidar (2003), and the source is quoted from IABD's Business Research Yearbook Volume X.

Table 1
Summary of Previous Study on Online Financial Report

Study	Country of Study	Year of Study	Number of companies	% with website	% with financial information
Petravick and Gillet	USA	1996	150	69	54
Louwers et al.	USA	1996	150	65	46
Gray and Debreceny	USA	1997	50	98	68
Gowthorpe and Flynn	Global	1997	100	89	52
Lymer	UK	1997	50	92	68
Lymer and Tallberg	Finland	1997	72	90	82
Deller et al.	Germany	1998	30	87	-
Brennan and Hourigan	Ireland	1998	108	46	30
Molero et al.	Spain	1999	-	45	25
Lymer et al.	22 countries	1999	660	86	62
Debreceny and Gray	UK, France and Germany	1999	50	88	72
Hassan et al.	Malaysia	1999	247	36	17
Ashbaugh et al.,	USA	1999	290	87	42
FASB	USA	2000	100	99	93
Fitzsimons and Shoaf	USA	2000	100	99	93

Source: Dr. Haidar Fraihat, *Business Research Yearbook*, pp 216-220, Volume X, *International Academy of Business Disciplines (IABD)*, 2003.

However, not many studies have been carried out to investigate the level of ICT or internet usage in financial reporting among public sector accounting particularly in Malaysian environment. Thus, this study is very significant to provide initial comprehensive understanding towards the subject. The lack of such study may be due to the nature of public sector accounting itself, which is subject to specific constitution, rules, regulation and circulars. In fact, public sector accounting does not emphasis on profitability, thus making its annual reports less attractive to potential investors. In addition, the requirement to disclose public sector financial and non-financial information is not governed by any statutory, therefore making such disclosure mainly on voluntary basis. It has been brought to our knowledge that the incorporation of ICT or internet in financial report provides openness, wider accessibility and shared elements which will be beneficial in enhancing public confidence towards public sector accounting as well as encouraging greater highly corporate governance and more discipline or systematic spending of public fund.

Research Design and Methodology

This study's samples include all Melaka State Government departments, local government councils and statutory agencies. However, the final sample excludes the federal government departments or agencies operating in the state

of Melaka. It also excludes the subsidiary companies of Melaka State statutory agencies. The sampling phase yields the total of 55 public departments or agencies of Melaka. The name list of public sector incorporated in the study is summarized in the following Table 2. The list is obtained from the state government official website, which is available at www.melaka.gov.my

Table 2
List of Public Sector in Melaka

Melaka Chief Minister Department	State Economic Action Council Internal Audit and Public Complaint Division Melaka K – Economy Division Bio-Technology Division Manufacturing Technology Division Melaka Education Funds Chief Minister’s Incorporated Chief Minister Office Administration Unit Treasury Unit Social and Asset Management Unit State Sports Council State Assembly Division Information Technology and Services Division Human Resources Division Resource Division Social Recreation Development Division State Economic Planning Unit Housing and Local Government Unit Tourism Promotion Division JKMM’s Infrastructure Corridor Division Entrepreneur Development Division Stall Division Pembela Kemiskinan Division
Melaka Local Government Council	Melaka Historical City Municipal Council Alor Gajah Municipal Council Jasin District Council Melaka Tengah District and Land Office Alor Gajah District and Land Office Jasin District and Land Office
Melaka State Government Department	Office of the State Secretary State Legal Advisor’s Office State Financial and Treasury Office Melaka Syariah High Court Land and Mines Office State Public Works Department State Development Office

	State Agricultural Office State Islamic Department State Welfare Department State Veterinary and Services Department State Urban and Rural Planning Department State Irrigation and Drainage Department State Governor's Office State Forestry Office
Melaka Statutory Agencies	Melaka Foundation Melaka State Economic Development Corporation Melaka Customary Lands Development Corporation Melaka Museums Corporation Melaka Public Library Corporation Melaka Technology Islamic College Melaka Group Limited Malaysian Cultural Institute of Melaka Melaka Institute of Management Malaysian Institute of Historical and Patriotic Studies

An online search of the websites of all departments as listed in Table 2 was conducted on December 31, 2004. Those websites are easily access from the state government official website. A thorough analysis of the quality and the quantity of information that were available on site was conducted. A further content analysis was also carried out to investigate the extent of disclosure.

Findings and Analysis

It was found that 26 agencies or departments of the 55 public organizations in the state of Melaka in this study had an official website. This figure represents 47% of the final sample of the study. In addition, it was also found that 5 of these agencies' official website are inaccessible due to reason 'page cannot be found', meaning these websites either has been removed, name changed or temporarily unavailable. It means only 21 websites are available and active for further analysis.

The most popular types of information disclose by Melaka's public organizations in their websites were departments or agencies background; organizational structure; functions, vision and mission; welcoming speech by head of department; latest news such as press release, tender notice or development project; information on activities or services offered; contact person and link to other organizations. Only one website disclosed financial information. It represents 2% from total final sample of 55 public organizations in the state. The financial information on the websites consists of only highlight of financial statement. It reports turnover, profit before tax, taxation, profit after tax, share capital and reserve of the organization for two consecutive year. It also provides additional notes and link to its subsidiaries' financial report.

One of the positive implications of the internet application for financial reporting is the ability of the users to access real time financial and non-financial data that are not provided by written annual report. However, such implication is not significant for public sector financial reporting. As only one organization discloses online annual performance report, there is a vast room for improvement especially in encouraging more public departments and agencies transform to new paradigm of online reporting. It is aware that public sectors are not enacted to disclose online annual financial or non-financial report and it is rather voluntarily basis, however with the emergence of ICT as well

as internet such disclosure are perceived impartial particularly in order to enhance accountability, reputation, understanding and trust of public account users.

Conclusion

The main motivation of this exploratory research is to conduct quantitative analysis of online financial reporting practices by state of Melaka public departments and agencies. As expected, a large number of these organizations do not disclose online annual performance report. This development is alarming as the government has done a lot of efforts to establish electronic government concept, even though disclosing annual report through internet is not required by the constitution, financial regulation, treasury circular or treasure directions.

As far as users concern, online annual performance report provides real time information on public sector performance, however caution must be exercised. Although the internet and ICT offer convenience of access, the integrity, validity and accountability of the data is not always certain, therefore, hard copy should be always referred in order to facilitate decision making process. In fact, the government of Malaysia particularly Treasury with the assistance of state government should start designing online reporting regulatory framework to accommodate the application of ICT or internet for financial reporting purpose. There is a demanding need to focus on how preparers and users can gain from the advantage offered by ICT or internet without compromising the credibility of the financial data or figure disclosed.

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