PAD: 370
FINANCIAL ADMINISTRATION

UiTM

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INTRODUCTION TO FINANCIAL ADMINISTRATION

1. Definitions
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1.4. Sources of Financial Administration

1.1. DEFINITIONS

Public Finance Administration or sometimes also known as Government Finance Administration is a field that is quick expanding in its scopes, and is consider as among the most important portfolio in the government.

In Malaysia and also most parts of the world, the PFA vary from year to year. New programs are inculcated, and likewise old programs are either discarded in whole or in part.

Existing of PFA is to ordered policies and financial strategies to achieve objectives and organization goals. Example: Malaysia aims to achieve on eradicate poverty level and recompiling the diversity of society under the special policies like national development policy.

Whole philosophy and concept about public financial administration are has been the same goal to achieve the effectively and efficiency. Even government has diversity of agencies and division by using a different

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approach but the objective and goal still the same in action and implementation.

For more details about the FA concept can clearly as follows:

A) FA as a Studying Discipline
PFM as a studying discipline caused can explanation more facts, principles and theory are being involved to increase and make relationships with money by individual, businessperson and government and that connecting always interdependent between public and private sector. Beside of that many universities offered course in financial discipline like Personnel Finance Public Finance.

B) FA as a Process
Harold F. Alderfer was given concept of financial administration that one circle that started from tax charge until the final spending by government. It means that PFM involving 2 element, which as a process to gained money and how to spending money.

C) FA as a Management Tool
FA as a management tool caused all activities always using accounting and economy modern, mathematical rules and aspect of system analysis and behavioral science for purpose of assisting management. PFM as a major element as functions of financial planning and control (Francis, 1973).

D) FA as a Development Tool

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Ibid, p4-6
From development aspect, PFM are major player in giving the benefits to public and not only the process and efficiency but gained together with surrounding development.

Example: DEB since 1970 existing to aims goal to achieve in eradicate poverty level and restructure diversity of society with 3 level implement in programs planning, programs implementing and programs evaluation.

E) FA as a Research about Government Activities

(otto eiksten, 1973) says that FA is one of the researches always connecting with government gaining and increase of outcomes and debt management. In facts, money is complicated to gained and no limitations. That why PFM must be effectively and efficiency in using to provided the goods and services to society.

Now, many country introducing ‘deficit budgeting in PFM that government must to increased in loan for covered weakness in public budgeting.

F) FA as a Activities and Functions

According to (felix and llord, 1973), in modern public administration activities and functions are always interdependent to government system. PFM as a activities and functions for government can see as below;

1) Decided of financial sources and taken action for money gathered or allocation.
2) Decided of distribution of money and spending
3) Controlling of money spending and allocate
4) Manage of payment aspect and account

FA is usually needed caused 3 factors as follow;
A) Sources like human being, money, stuff and times are limited
B) Demanding for sources are higher and no limits
C) Existing of alternative in choosing sources and how to use it.

Government agencies must manage well as they can to achieve their objective and must making deeply research about policy and government
rules to maintaining their performance to provided a better goods and services to society.

Besides of that, government roles are purpose to provided fully forces, controlling the market pieces and encouraging the economic growth.

Public Finance Administration / Government Finance Administration is:

* Public Financial Administration involves the machinery & methods by which funds for the support & public service are raised, spend & accounted for, and is therefore the core of modern government.\(^3\)

* PFA is also the administration of the process of making decision about how to generate public Revenues & Expenditures.

• It also concerns with the techniques how the government manages the resources, with Efficiency & Effectiveness, and to finance the various development projects for the people.

1.2. HISTORICAL DEVELOPMENT

Historical Development of Public Finance Administration:

1. During World War I & II:

\(^3\) This definition was given by the Hoover Commission, USA., 1949.
During the period of World War I & II, the “Line Item Budgeting” system was used. This system emphasized on the control of public (governmental) expenditure on the various programs.

Thus, every item to be purchased by the various governmental departments should enlist the items to be bought in details. This is to ensure (prevent) the misuse of public money & overspending.

2. After World War II:

After World War II, the PPBS (Planning Program Budgeting System) were used. This system emphasized on the need for detail planning of the various governmental (development) programs – to ensure the viable (feasible / practicality/ rational) of any programs.

This system is more flexible than the Line Item Budgeting system. The PPBS is also known as the “Performance Budget” or the “Rational Comprehensive Approach.”

PPBS = Performance Budget = Rational Comprehensive Approach

Historical Development of Public Finance Administration in M'sia:

The early historical development of Public Finance Administration (or Government Finance Administration) in Malaysia starts officially with the establishment of the Bank Negara Ordinance in 1958.

With these prudential steps, the Malaysia government now has more control (authority and autonomy) over its public revenues and expenditures, as compared to the period before Independent.

Essentially Bank Negara during its early days focus on only a few portfolios, among these are;

1. Forex (or Foreign Exchange)
2. International Trade (Import & Export)
3. International loans & Payments

However, with the event of time, the Malaysia government began to expand its roles and functions (Portfolios) to include, among others;

4. Making local currency (or legal tender)
5. Strengthening the local financial institutions & establish new ones
6. Control Monetary & Fiscal Policy

All these moves are fundamental and crucial, so as to ensure a more stable Malaysia, to encourage economic growth and development, and harmony in the society as a whole.

1.3. IMPORTANCE & OBJECTIVES OF PUBLIC FINANCE ADMINISTRATION
And among the few importance of the need to manage public resources and expenditures (public finance administration) are:

1. To ensure efficiency and effective use of public resources.
2. To reduce wastage.
3. To ensure the achievement of government development goals and objectives.
4. To ensure social equality & equity.
5. Avoiding of fraud and Misuse.

And the objectives of Public Finance Administration are:

1. To ensure more transparency of work.
2. To ensure public accountability.
3. To ensure amanah (responsibility) of civil servants.
4. To encourage professionalism of public servants.
5. To encourage TQM in PFA.
6. To reduce corruption of public money.
7. To ensure Validity of Buying.
8. To ensure The System Of Taxes are Good Administrative.

1.4. SOURCES OF P. FINANCE ADMINISTRATION

And among the various sources of Public Revenues are:

a. Taxes (eg. Land taxes, Business taxes, Personal taxes, ..)
b. Custom duties / Tariffs (eg. levy, import & export taxes, ..)
c. Penalty & Fines (eg. Summons, …)
d. Gifts (eg. Public donations, wakaf, International donations)

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e. International Loan (eg. from IMF, World Bank, …)  

f. Quid Pro Quo payment (eg. Fees, charge, payments, …. )

QPQ is a Latin word, which means “something for something.” That is, someone pays money as a fee or charge to get something in return. For example, you pay water bills, electricity bills, etc…after using the water & electricity.

1.5. TOOLS OF P. FINANCE ADMINISTRATION

Tools of PFA / Financial Administration (of the Government):

1. Monetary Policy
   Is the tool of government in controlling the flows of money in the country. Thus;

   - Inflation ---- Interest rate ↑
   - Recession --- Interest rate ↓

2. Fiscal Policy
   Is the tool of government in controlling the purchasing of goods & services in the country. Thus;

   - Inflation ---- Purchasing ↓
   - Recession --- Purchasing ↑

1.6. COMPONENTS OF P. FINANCE ADMINISTRATION

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Ibid., p.83.
Components of PFA / Financial Administration:

1. Revenues
2. Expenditures
3. Accounting
4. Auditing
5. Purchasing & Storing
6. Supplying
7. Tax Administration
8. Treasury Mgt.

Tax Collection is perhaps one of the main and important revenues of the government (or public sector). Essentially, the government collects various taxes from the people (society and private organizations). Among the important taxes collected are:

   a. Personal Income Tax
   b. Corporate Tax
   c. Business Tax
   d. Custom duties & levy
   e. Summons and fines
   f. Zakat (& kharaj)

Likewise, the government also incurred various and large expenditures in the budgeting proposal for the various development projects and programs implemented. Typically, there are two types of expenditures;

   a. Maintenance expenditure

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b. Development expenditure

Budgeting as tool and planning method for spending money for future. Budgeting is including how to create or exist government account especially for past years and estimate of government accounts for future.

Budgeting is more focusing on financial contribution for human's needs. Budgeting also achieve needs and public desire. In fact, money is a limited source and the existing of budgeting are the one option to choose a part of government alternative.

**Accounting** has to do with the recording of the various financial transaction incurred by the government. For examples, an accountant is responsible to keep the account correctly recorded, update the debit & credit, prepare the cash flows, balance sheet, and final financial report at the end of every year.

All transactions and spending of money must be recording in budgeting all dealing must be clearly and exist 'check-balance'. Usually, accounting system must be standardized with management policies and it only effective through provided fully information about the costs and programs objective.

Accounting is a part of recording to ensuring the validity of all business transaction by government is good recording. This can be evidence to public that one statement can be explanation about what, when, how, whom, who, involved in all program and projects and how this development can given benefits to public. As a result, it makes public have a sense of loyalty, compliance and establishes country.

**Auditing** deals with the “rechecking” of the account by a qualified auditor. There are essentially two types of auditors;

1. Internal auditor
2. External auditor
Internal auditor belongs to the said company or organization, and external auditor is someone from outside the company – who is appointed on a periodical timeframe to help recheck the financial account of the said company. The reason being is to ensure fair and accurate financial account transactions being recorded by the company accountants.

**Purchasing & Storing** (or also known as Public Procurement) deals with the purchasing of goods and services by the public sectors from the private sectors or the general public at large – and storing the said goods in warehouses for future usage. For examples, office equipments, computers, tables, chairs, OHP, and so on. Purchasing management are important caused maintenance and tools are two items to ensure programs can be implement with clearly.

The system of purchasing management in Malaysia especially in public sector always focusing on 2 aspects:
1. Buying management
2. Storage
Must remember in this case, purchasing that are gained are from government outcomes through taxes for public. In other words, public purchasing management must have good awareness and transparency to fulfill objective and goals that have been planning.

**Tax Administration** in Malaysia (and most of the world) is handle by the Inland Revenue Office (or Jabatan Hasil Dalam Negeri). Its function is to collect the various taxes from the public and record (or manage) them accordingly.
Taxes a one part of to moving sources from private sector and individual to public sector. This approach not only focus on sources for funds, for financing government activities but Taxes is one tool to controlling total of spending in private sector. Its have been using by Western Country during Post War 2 when public are forcing to make payment of taxes for government to avoid inflation.
Malaysia government charge taxes like a business taxes land tax, income tax, import tax and door tax through their agencies for make sure the policies going forward. The increasingly in rates of tax in certain terms, condition, and depend on time and place of environmental.

Example: Malaysia government takes action with increasingly Levi for import vehicle in Malaysia. This action is taken to enabling sales of national vehicles (proton) to local users. As a result, this action making higher incomes to increase sales of national vehicles.

Government are also exist tax exempt for certain things to enable development and higher motivation. With pioneer level, government exist tax exempt for the new company that have new started whether in or out country. This action finally given more increase in local and international investment to setting their capital in this country.

Direct Taxes are one major contribute to outcomes Malaysia. Direct taxes are totally contributing outcomes from government outcomes. Indirectly taxes are also contributing to government outcomes and included duty on export, import, tax and so on.

And lastly, Treasury Management (or Perbendaharaan Negara) deals with the allocation and distribution of public servants salaries, bonuses, special relief’s, allowances, and so on. The role of treasury is to conclude, planned and implementation financial policy and government spending. Treasury are purposed to achieve the economic growth and allocation distribution for more standardized with government policies.

Level 1
- Designing and proposal and approved by treasury. Every proposal or suggestion must involve with spending of federal money and must give to Treasury before approved by government.

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Level 2

- Implementation or projects administration and program that already approved by law body and allowed to take the allocation that already approach by government to implementation depend on need of economic and need of society.

Level 3

- For this level, audit and report by auditor must accepted, treasury will checking all aspect that include of content of report. Account committee of public and (PAC) will be considered that report to seek the opportunity and for the future.

PUBLIC FINANCE ADMINISTRATION. Vs PRIVATE FINANCE ADMINISTRATION.

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Level of Control Officer in Treasury given by Musa Ahmad, (1999) Centre of Education Development, UiTM, p.11-12.
PUBLIC FINANCE

PRIVATE FINANCE
Belongs to the Government.
Belongs to the Private
To serve the public/ people
To maximize profits & minimize costs.
Mostly from the taxes collect from the people.

Internal sources:
Eg. Personal income tax, business tax, corporate tax, land tax, selling of bonds, etc.

External sources:
Eg. Borrowing from external funds, such as, IMF, World Bank, international donations.
Resources are limited to only the private ownership, shareholders, and
To the superior,
(Eg. Head Department, District Officer, Minister, PM, etc.)

To the public (people).
A/c to only the private ownership, shareholders, and interested party.

Size &
It is the largest & most complex organization, and dominant force of the country.

It covers a wide range of specializations.

(Eg. Healthcare, human resources, economy, transport, telecommunication, etc.
It operates on a much narrow (and specialized) range of activities.

Thus, from the above concise chart, one should be clear of the various differences that exist in both the Public and Private organization, for a good understanding of these two will assist the student towards a better understanding of the contributions, in term of the services and goods, they contribute to the society.

CONCLUSION

As a concluding remark, Public Finance Administration is the government mechanism to generate various revenues and expenditures, and the proper management and planning, for the development and progress of the nation as a whole.

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Thus, the manipulation of the fiscal policy and monetary policy tools, and the focus on the Balance of Trade, and likewise for national stability and growth seems to be the core of the business of every government.

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2. PUBLIC REVENUES

PUBLIC REVENUES (in the public sectors)

2.1. Introduction
2.2. Sources of Public Revenues
2.3. Public Revenues from Federal, State, & Local Government
2.4. Conclusion

2.1. INTRODUCTION

The government has the authority and legal rights to collect various taxes from the people, which the private organization does not possessed. Government collects various taxes (revenues) from the people to finance for the various development projects and programs.
Without the taxes and other sources of revenues from the people, the
government would be totally crippled – as external borrowing (public
borrowing from external sources) can be troublesome, unpredictable,
unreliable, and submit one country to outside influence and hegemony.

2.2. SOURCES OF PUBLIC REVENUES

Essentially there are a few sources of Public Revenues that the government
can collect from the people, among these are:

a. Taxes    (eg. Land taxes, Business taxes, Personal taxes, ..)
b. Custom duties / Tariffs   (eg. levy, import & export taxes, ..)
c. Penalty & Fines    (eg. Summons, …)
d. Gifts    (eg. Public donations, wakaf, International donations )
e. Quid Pro Quo payment  (eg. Fees, charge, payments, …. )
f. International Loan     (eg. from IMF, World Bank, …)

The various sources of public revenues from the Federal and State
government will be discussed in details in the next few pages to come.

2.3. PUBLIC REVENUES FROM - FEDERAL, STATE, & LOCAL
GOVERNMENT

Public Revenues can be collected from the State government, the State
government, and the Local government.

Essentially there are 4 types of Public Revenues;

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Publications. P.70. Also refer to Phang Siew Nooi, (1997). Financing Local Government in

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1. **Tax Revenues** – are perhaps one of the largest source of revenues (or income) of the government. Essentially, examples of tax revenues are – personal income taxes, business taxes, corporate taxes, Import export taxes, land taxes, and so on.

Tax revenues can further be subdivided into;

**a. Direct Tax**
Are taxes that are imposed directly on an individual or organization. Examples of Direct taxes are – Personal income taxes, Business taxes, corporate taxes, and so on.

**b. Indirect Tax**
Are taxes that are imposed indirectly on an individual or organization. Examples of Indirect taxes are – VAT (Value Added Tax), Import-Export taxes, Services charges, and so on.

2. **Non-Tax Revenues** – are taxes that are collected by the government from the “services or goods” consumed (utilized) by the people. Examples of non-tax revenues are – permits, admission fees, fines & summons, compensations, donations, donations (locals & international), registration fees of business, and so on.

3. **Non-Revenue Acceptance** – is the revenues from return of loans & capital, and EPF (Employment Provident Fund) received by the government from the people.
4. **Revenues from the Federal Territories** – Are revenues received from the government, which comes primarily from the “Federal Territories” - such as, Kula Lumpur, Labuan, and Putra Jaya.

All revenues from these funds are centralized under the “Kumpulan Wang Yang Disatukan Bagi Persekutuan.”

Essentially, there are three (3) sources of Federal Territories revenues;

a. Tax Revenues (Hasil Cukai)
b. Non-Tax Revenues (Hasil Bukan Cukai)
c. Non-Revenues Acceptance (Terimaan Bukan Hasil)

**PUBLIC REVENUES**

1. Federal Government (Kerajaan Persekutuan)
2. State Government (Kerajaan Negeri)
3. Local Government (Kerajaan Tempatan))

I. Tax Revenues
II. Non-Tax Revenues
III. Non-Revenues Acceptance
The diagram below shows the flows of how the various revenues are collected;

How the various revenues are collected and centralized

Federal Government (Kerajaan Persekutuan)

State Government (Kerajaan Negeri)

Local Government (Kerajaan Tempatan))

Municipal Council (Majlis Perbandaran) ↔ District Council (Majlis Daerah)

TYPES OF TAXES

Fundamentally, there are two main type of taxes, these are;

1. Direct Tax
   Direct Tax is a tax that is levied directly on an individual or organization. Examples of Direct Tax are - Personal Income Tax, Business Tax, Corporate Tax, Poll Tax, Land tax, and so on.

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In Malaysia, the Inland Revenue Office (Lembaga Hasil Dlm. Negeri) is responsible to help facilitate in collecting the various direct taxes from the people for the government.

2. Indirect tax

Indirect Tax is a tax that is levied indirectly on an individual (or organization). Examples of Indirect Tax are – Custom duties, tariffs on import and export of goods, Value-Added Tax, and so on.

Indirect Tax is imposed indirectly on the individual who use these goods or services, with or without he/ she realizing it. For example, VAT (or Value-Added Tax) is only imposed on the individual who buy food at McDonalds, Kentucky Fried Chicken, and so on.

<table>
<thead>
<tr>
<th>Price for a set of McDonald food</th>
<th>RM6.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value-Added Tax (5%)</td>
<td>RM0.30</td>
</tr>
</tbody>
</table>

Total price for a set of McDonald food  **RM6.30**

KINDS / TYPES OF TAXES:

There are many kinds (or types) of taxes. Among the important ones are:

1. Progressive Tax
2. Regressive Tax
3. Proportionate Tax

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1. **Progressive Tax** – Is a tax whereby the more income a person earns, the more tax he has to pay. For example,

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>First RM2500</td>
<td>6%</td>
</tr>
<tr>
<td>Second RM2500</td>
<td>9%</td>
</tr>
<tr>
<td>Third RM2500</td>
<td>12%</td>
</tr>
<tr>
<td>Fourth RM2500</td>
<td>15%</td>
</tr>
<tr>
<td>Fifth RM2500</td>
<td>20%</td>
</tr>
<tr>
<td>More than RM75,000</td>
<td>25%</td>
</tr>
</tbody>
</table>

Therefore, if a professor earns RM12,500 per month, he has to pay 20% tax at the end of the year.

2. **Regressive Tax** – Is the opposite of Progressive Tax. It is a situation whereby the more income a person earns, the lesser tax he/she has to pay to the government.

In developing countries such as, India, Pakistan, Bangladesh, Nepal, and so on. Regressive Tax method is used to encourage farmers to produce more necessity goods, such as, padi, palm-oil, rubber, sugar, flour, poultry, and so on. Thus, the more these farmers produce these necessity goods, the lesser tax they have to pay to the government.

3. **Proportionate Tax** – Is a tax whereby regardless of the level of income a person (or organization) earns, he/she will have to pay the same amount of tax.

For example, the corporate tax in Malaysia is levied at 40% per annum, regardless of the profit made (or not made) by the said company.
CONCLUSION

As a concluding remark, public revenues consists of - Tax Revenues, Non-Tax Revenues, and Non-Revenue Acceptance, which are collected from the Federal Territories (such as, Kuala Lumpur, Labuan, and PutraJaya), and the 12 other State-Governments of Malaysia, such as, Kelantan, Perak, Pulau Pinang, Perlis, Kedah, Pahang, Terengganu, Negeri Sembilan, Selangor, Johore, Sabah, and Sarawak.

REFERENCES


3. PUBLIC EXPENDITURES

PUBLIC EXPENDITURES (in the public sector)

3.1. Introduction: Definitions & Objectives
3.2. Types of Public Expenditure
   (of the Federal, State, & Local Government)
3.3. Conclusion

3.1. INTRODUCTION

Public expenditures refer to government spending on goods and services, in its efforts develop Malaysia. Essentially, under the Fiscal Policy strategy, the government should spend on goods and services, and /or inject the capital into the local market to help boost the economy, and stabilize the market.

3.2. TYPES OF PUBLIC EXPENDITURE
   (OF THE FEDERAL, STATE, & LOCAL GOVERNMENT)

Essentially there are two main types of public expenditures;

1. Maintenance Expenditures (or Operating Expenditures)
2. Development Expenditures

1. Maintenance Expenditures – refers to the costs need to maintain the operation of the various governmental departments nationwide. These costs include, among others – salaries for civil servants, judges, policemen, hospital staffs, and so on (both professional and non-professional staffs).

The maintenance expenditures is repetitive in nature. And thus as stipulated under Article 98 of the Federal Constitution of Malaysia. Which stated
among others the automatic approval of these funds (or allocations), without the need to table it at the parliament for approval. This is important so as to save time, energy, and unnecessary hindrances.

2. Development Expenditures – refers to the costs need for development projects, such as, the building of schools, roads, hospitals, universities, bridges, and so on.

Essentially, Development expenditures are non-repetitive in nature. Thus, Development expenditures need prior parliament approval before the said project can be implemented. This is important to avoid unnecessary repetitive projects, over-spending over certain projects, and so on.

**Differences between ME & DE:**

**Maintenance Expenditures**
**Development Expenditures**
Repetitive in nature.
Usually involves a small or average sum of money.
Usually short-term or mid-term (eg. Monthly, or Yearly basis).
Usually mid-term or long-term (eg. One year to five, and/or ten years, or more).
Eg. Salaries for civil servants, judges, and so on.
## GOVERNMENT BUDGET 2004:

### REVENUES:

WHERE IT COMES FROM: (RM 109, 990 million @RM 109.99 billion)

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Revenues (Income Tax)</td>
<td>42.7 %</td>
</tr>
<tr>
<td>Non-Tax Revenues &amp; other Taxes</td>
<td>20.7 %</td>
</tr>
<tr>
<td>Borrowing &amp; Use of Govern. Assets</td>
<td>13.1 %</td>
</tr>
<tr>
<td>Import &amp; Export Duties</td>
<td>4.7 %</td>
</tr>
<tr>
<td>Other Indirect Taxes</td>
<td>18.8 %</td>
</tr>
</tbody>
</table>

**TOTAL:** 100 %

### EXPENDITURES:

WHERE IT GOES: (RM 109, 990 million @RM 109.99 billion)

- General Administration: 2.1%
- Emoluments: 19.1%
- Pensions & Gratuities (bonus): 4.2%
- Supplies & Services: 15.6%
- Debt Service Charges: 9.0%
- Economic Services: 12.5%
- Social Services: 10.1%
- Grants & Transfers to State Governors: 2.5%

Public Expenditure in Malaysia for the year 2004 can essentially be grouped into two (2) main categories:

1. **Operating Expenditures** (or Maintenance Expenditures).

   Refers to the costs incurred by the government for keeping the daily operation of government departments and agencies, such as, Ministry of Health, Ministry of Education, Ministry of Transport, and so on so forth.

   Which includes among others - General Administration, Emoluments (or salaries of public workers and government officers), Pensions and Gratuities (bonus) for pensioners, Supplies and Services, and Debt Services Charges.

2. **Development Expenditures**.

   Refers to the costs incurred by the government for development projects and programs, for Economic Development Projects, Social and Educational Development Projects (such as the building of schools, hospitals, universities, and so on to Youth Centers, Women Crisis Centers, and so forth), Grants and Transfers to State Governments, Security, and Miscellaneous (under Other Expenditures).

**3.3. CONCLUSION**
As a concluding remark, proper and prudential planning on the government part is crucial so as to ensure efficient, effective, and accountable spending of public revenues. And the achievement of the overall national objectives of making Malaysia into a more progressive, dynamic, and harmony country.

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4.2. Process of Public Investment
4.3. The Public Sector Investment
4.4. The Basic of Capital Expenditure in Public Sector Investment
4.5. Government Incentive for Investment
4.6. The Role of Public Investment
4.7. Technique in Project Evaluation

4.0. INTRODUCTION
Public investment refers to the steps taken by the government – to invest in overseas business opportunity, and /or providing investment opportunities to the people in Malaysia.

According to Timothy Johnson:

“An investment which involves some positive rate of returns, that can be reasonably expected after sufficient analysis has been made.”

According to Webster dictionary:

“ To commit money (or capital) in order to earn a financial returns.”

The investment is one of injection to income cycle. It is important part in determine long term if economic growth. Without investment the country cannot move forward in economic growth. The investment that made by public sector is totally different with investment in private sector.

The priority of the private sector is profit gathered and it become the major factor in making decision to invest. In public sector, the decision more influence by political and social factor and suppose to gained profit only.

It means that the investment is one return rate that is expected after one research to evaluate. It also means that the spending on goods and services for gained satisfaction income for future. The public investment is one return rate that is expected to gain to fulfill the purpose of society welfare.

For Donald Fischer and Ronald Jordan in their book “ Security Analysis And Portfolio Management said that as follow:
“An investment is commitments of funds made in the expectation of some positive rate of return. Is the investment are properly undertaken, the return will commensurate with what the investor assumes”.

That statement say the investment can defined as spending for goods and services that are using for produced the other goods with purpose to gain the future profit or to add more public capital. The investment are including the global activities and refers to the diversity of invest activities into deposit certificate, command stocks and funds.

The public sector investment always have priority to invest not only to profits maximize but also to provided the better goods and services for public. The example is when the government invests in road building, school, hospital, research center, and national defenses without any payment.

In facts, for certain public agencies like Water Supplier Department and train services, their selling their services must charge for users to gain the revenues for support the allocation costs.

- The public investment usually can increase the spending aggregate in economic and directly increasing in national economic activities.

1. Public Investment by the Government Overseas:

Government sometimes invests in overseas business projects and programs, to increase local reserve, resources and capital. Thus, the government might invest in blue-chip companies that have firm fundamentals, or accelerate local exports to earn foreign exchange, or to invest in telecommunication industry (eg. In Afghanistan), or establishing firms and companies overseas (eg. Proton Automobile), and so on.

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\[\text{Definition of investment by Musa Ahmad, (1999), Centre of Education Development., UiTM: Shah Alam, p. 44.}\]
2. Public Investment Provides by the Government (to the People):

However, in most cases, the government tends to provide investment opportunities to the people through;

a. Amanah Saham Nasional (ASN)/ or Amanah Saham Bumiputera (ASB)

b. Tabung Usahawan Baru (TUB) 1989 (New Entreprenuer Capital Fund)

c. Skim Penjaja & Peniaga Kecil (SPPK) (Small Business & Stall Operation Scheme)

Incentives provides by the government (to boost investments internally and externally);

a. Tax exemption in certain locations (or areas).
   (eg. Pasir Gudang, Langkawi Island, and so on)

b. Tax exemption for sponsoring local & national events.
   Which includes among others, sports activities, recreation, welfare, and so on.
   (eg. National games, badminton, hockey, football, etc).

c. Tax reduction in certain states.
   This is important especially to encourage investors to invest in the rural areas, which are often left behind.

d. Copyright and pioneership status.
   Means that investors intellectual property rights will be protected by the government.

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e. ISO Quality Awards

ISO Quality Awards will be issued by the government to qualified companies as a means to boost public confidence in the local goods and products.

FUNCTIONS (OR IMPORTANCE) OF PUBLIC INVESTMENT:

There are many functions of public investment. Among the important functions of public investment are;

1. **To promote small and medium size** (local industries), that needs government protection and support. This is important, so as to protect the local industries from being outplayed by multimillion gigantic international foreign companies.

2. **To promote new development projects** and programs, which are essential for economic growth and economic development of the nation. This happens when government invest in millions and billions of ringgit in building educational institutions, high-tech hospitals, better transport and road system (eg. LRT, North-South Highway), high-tech airport, telecommunication towers, and so on.

3. **To help boost the economy of the country and provide job-opportunities**. This is important, as public investment in development projects are mean to promote the GNP and GDP growth of the nation, and also to provide job opportunities to its people.

4. **To earn foreign-exchange dollar**. Sometimes, the government invests in overseas projects to earn foreign currency. This is important so that more foreign currency can flows into the country, and directly help boost the economy of the nation.
Furthermore, MoU (Memorandum of Understanding) with other countries on matter of import-export and technological transfer, can help boost FDI into the country.

4.1. CRITERIA OF PUBLIC INVESTMENT

Among the important criteria that government agencies and organizations use for identifying and investing are;

1. Government should invest in only blue-chip companies. This essentially means that, the government should only invest in established and well-known companies, which have strong fundamentals and good historical background. Examples of such organizations are, Bank Rakyat, Maybank, TV3, Post Malaysia, KTM, and so on.

2. Government should give priority to local industries. This is especially true for Bumiputera base and Malaysian industries, that highly need government investment, support and incentives.

3. Government should invest in human resources development projects. This means that more programs for human resources development, such as, IT skills, English language courses for civil servants, ICT courses, leadership training courses, and so on, are important – so as to develop the human resources of the nation. This is crucial to prepare the human resources of the nation to face internal and external challenges.

4. Resources full and catch the investment opportunity. Responsibility by Implementation Coordination Unit (ICU), Social-Economic Research Unit (SERU), Economic Planning Unit (EPU). The example of giant government projects like KLIA, KLCC, Bakun Dam and Sepang Formula One.

5) Evaluate the profit or benefit that can achieve with the investment opportunity. The first criteria are must identify the estimate of capital investment caused to ensure the avoiding of deficit or surplus. The decision-
making must base on the standard assessment and pay attention to other factor like war, inflation at other country.

6) Reevaluate to repairing in **assessment** and decision by management for future.
This process must determine the controlling process since the programs beginning in project implementation. It is caused to ensure the government can achieve the goal.

### 4.2. PROCESS OF PUBLIC INVESTMENT

The process of public investment involves a few important steps, among these are:

1. To look for potential & prospect investment opportunities.

2. To analyze the various benefits & options available.

3. To evaluate the various benefits & options, after a period of time.
We can identify a few of public investment process which as follows;

1) **The good prices**
   - Must depend on currency and exchange
   - The world price
   - Labor

2) **Cost and profit comparison**
   - Benefit cost-ratio
   - Net-present value
   - Internal rates of return

3) **Attention for side effects**
   Sensitivity analysis that using to making the test to resource full about the ability to get the facilities or support. The example is reducing of market price. When this happen, the project that must implement should follow the sensitivity analysis.
   In sensitivity analysis has 4 aspects that must considering as below;
   1) Prices
   2) The lately of purchasing
   3) Cost-Overrun
   4) Income

4) **Evaluation**
   The technique of project evaluation base on estimate in flow of output that is gaining from entire of project. Caused of diversity of output and input in one project can make easily to compare in output worth an input worth based on currency. There has two type how to identify the worth or not in project evaluation as below;
   1) Auditing
   The source of evaluation must chief by one free organization from management body.
   2) Learning-dimension

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Ibid, p 61-63.
4.3 THE PUBLIC SECTOR INVESTMENT

Normally government invests in public sector with purpose to help own society. It means that the social needs must be the priority to fulfill in diversity aspect like wealth, education, agriculture, industrialization and business.

The government investment can be determined in diversity sector through the existing of funds; help and projects for purpose to helping society and not for gain the profits. The diversity of sectors can determined as below:

A) Industrialization Sector

In this sector, government exist the “Tabung Pemulihan Perusahaan” at March 1988 with given the allocation that handle by MIDF that ordered by National Bank. The purposed of these programs is to provide the financial support to potential and having prospect to better growth in industry.

B) Business Sector

The ‘New Aid for businessman’ is exits at December 1989 with allocation worth to RM 250 Million. These fund exits with purpose to help the new businessman involved in business sector with financial support are given by government.

One scheme that formerly known as Hawker Scheme and Little Stall also exits by government at July 1986. In early operations, this scheme given loans for little business in Malaysia which the loan worth below RM2000 or below RM5000. In 1990, government are approved the total of more allocation for this scheme with RM18.3 million.
For the ‘Loan Aid for Little Hawker’ that already exits in March 1990 with early allocation worth to RM100 Million.

C) Housing Sector
In January 1990, ‘Fund of Delay Housing Project’ is exits with allocation worth to RM300 Million with purpose to settle down the housing project and to enabling the housing buyers get their valid rights and help the financial institution solved their problem in delay projects.

Started 1990, ‘Aids Funds for Industrial Technical’ exists with early allocation that worth to RM 80 Million with purpose to helping the group of the contractor for financial support.

D) Tourism Sector
According to visit Malaysia at 1990, the government already exits the ‘Tourist Specials Fund’ in the same year with goal to increase the tourism sector. The early allocation for this fund is RM120 Million for financing the projects that relationship with tourism.

E) Education Sector
In 1990 through in long term Malaysia planning, the government taken action in diversity of planning to provided the better services in physical, sciences laboratory, industrialization, teacher and to poor student.

The aids like Scholarship, textbook loan, extra food, and wealth and education services given by government to public. The investment also in helping universities in building the faculties, building renovate, purchasing buying and to provided the staff and student housing.

F) Health Sector
Government take action with increased the total of hospital in all state to solve the problem that always facing on state hospital. The increased of clinic and

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health services, nurse practical centre indirectly to fulfill the lack of health services.

**G) Agriculture Sector**
Through the National Development policy, the government increased in ways to modernized and reaffirmed in agriculture sector. It is implement to provided the one standard of land development strategies and specific product including the outcomes from forest, fishing and farming.

**I) Human Workforce Sector**
The government already invests a million with exiting the diversity of industrial practical center for provided the skill workforce to fulfill the need of labor. The example of the practical centre is like ‘Institut Latihan Perindustrian’ and ‘Institut Latihan Belia’.

**J) Security Sector**
This sector is priority to government take action with big allocation to increase the purchasing effective and efficiency of Army and national defenses

**4.4 THE BASIC OF CAPITAL EXPENDITURE IN PUBLIC SECTOR INVESTMENT**

1) Cost
In design the capital expenditure, cost as a major factor to determined and it’s easy to evaluate and easy making comparison to profit evaluate.

2) Tax and subsidy
Tax is payment transfers in economy that using to success in project analysis. The tax that is charge is one part of revenues from projects that has done implementation by government. The subsidy is payment transfers to project like to contractor and farmer and subsidy can reduce the costs.

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3) Profit
The profit can increase weather increase or reduce the cost. The one project can produce to increase the physical product like agriculture project which good water programs can control the good water to farmer able to gain higher incomes.

4) Cost and indirect profit
Sometimes, one project can produce the cost and profit for society. Indirectly can happen when it does not exist in project account. It happen when one project investment, the management hired the new labor.

4.5 GOVERNMENT INCENTIVE FOR INVESTMENT
After independence, Malaysia introduced the ‘Ordinance of Pioneer Industry at 1958 with purpose to attractive the foreign investor to invest at Malaysia. This Ordinance was replace by Act of Investment Encouraging at 1968.

Diversity of incentive was given by government to foreign investor as efforts to gain attention to individual and company to invest. The incentive can identify as follows;

a) Reinvestment allowance
b) Industrial Building allowance
c) Special Building allowance for staff accommodation in industrial sector
d) Incentive for training
e) Incentive for research and development
f) Incentive for tourism sector
g) Incentive for industrial standard

In Act of Investment Encouraging 1986, government support and encouraging investment in industrial sector, agriculture, tourism and so on and can defined the kind of incentive that are given as follows;

a) Pioneer level
b) Tax investment allowance
c) Export allowance
4.6 THE ROLE OF PUBLIC INVESTMENT

- Maximum the social welfare
- Minimize the lost financial
- To design framework that must fulfill in investment
- To increased the strength of goods and services for social present and future

4.7 TECHNIQUE IN PUBLIC PROJECT EVALUATION

1) The discount technique and benefit cost

-Discounted Cash Flow Technique (DCF)
In determined process in each investment in public sector, technique DCF more important rather than other technique. In this technique, it shows that betters to having a good financial now to invest for current situation rather than having financial and want to invest to future.

It's caused future quite though to expected and if to invest for the time being, it's can help to increase the capital for future. The DFC can give effect to taxes and investment allowance to implement. Through this technique, the investment can evaluate based on net present value (NPV).

-Payback Method of Investment Appraisal
This technique that is second best step to using in determined the criteria in one public investment. It's one easy approach, which it evaluates on period time in during the project, which let the net income to payback expenditure or capital.

Project is one worth which the less of payback duration, the more profit can gain as soon as fast.

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-**Average Rate of Return Method**
This technique explains that in each investment can be evaluate after rates of net profit after tax charge. The profit that are gaining every year can gather and given follow by duration of during the implementation of that project.

-Out line of Cost-Benefit Analysis
It’s one evaluation which existing of relationship in public investment that not has market value. This evaluation is about how to determined the profit that can earn by two body that government and society. It’s also included the issued in project choose follow the important of social needs.

In this technique, it’s more attention in the two aspect that private costs and private benefits. Usually private costs produced by income provider to government incomes like industrial provider that include the expenditure to staff wages and buying the not yet manufactured. In facts, the process of this project can exist the other external costs like pollution to environment.

The private benefits is can show more the monopoly by employer rather than other employee that has employment from the project development in that investment.

The employer can gaining the profit from the industry but if has pollution that can given negative effects for their labor, the investment are not worth cause only the one party have benefit but give the list for the other party.

-**Net Present Value**
This technique can help to evaluate the project with using the steps as below; Determined the rates of suitable discount to use and it must show the minimum rate return that can acceptable for one investment. Sometimes the rates if discount is differences are using based on type of investment that having on different risk.

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Ibid, p.64-66.
Calculation depends for the flow of investment in net present value at discount rate. It's maximum rate or one firm spending in investment without given the lack of their financial.

**Internal Rate of Return**
This approach usually using to evaluate the investment or project and must also focused on net present or time value. This approach its rate of discount that causes the total of net return present equal with project cost present.

Overall, in evaluate the investment project has a diversity of approach to use. In each approach that using has an advantages and disadvantages. From that approach, we can select the suitable approach to implementation based on type of investment.

**CONCLUSION**

As a conclusion, public investments are crucial to the government, public and private sectors, and individuals at large, as public investment promise a return (profits) from the prudential investment made by individuals, organizations, and government. However, the rate of returns (profits) from the mentioned investment depends on the type of investment made by these individual and organization.

**REFERENCES**

5. PUBLIC BUDGET (Belanjawan Awam)

PUBLIC BUDGET OF THE GOVERNMENT

5.1. Introduction & Definitions
5.2. Importance (Objectives) of public Budget
5.3. Characteristics of Public Budget
5.4. Public Budget Approval Process
5.5. Types of Public Budgeting System

5.1. INTRODUCTION & DEFINITIONS

The Capital Budget of the public sector or sometimes also known as Public Budget concerns how the government plans its revenues and expenditures at the Federal level, State level, and Local government level, to cater for the needs of its development programs and projects.
In a democratic society, the division of resources between the public and private sectors is roughly determined by the desires of the electorate. But because it is such a complex and time-consuming task to acquire adequate political information, the electorate is chronically ignorant.

This ignorance causes governments to enact budgets smaller than the ones they would enact if the electorate possessed complete information. The resulting misallocation of resources becomes more and more serious as the economy grows more complex (Anthony Downs).

Since the Revolutionary War, our democratic system of governance has forever been looking for better ways to inform the public and to design more sophisticated techniques for deciding how best to allocate scarce public resources.

In 1791 Alexander Hamilton, in his 1791 Report on Manufacturers, established a precedent for confronting the problem of public ignorance and for simultaneously solving the problem of how to decide to allocate scarce public resources: “budget to a plan”.

Hamilton, in his role as Secretary of the Treasury, presented an elaborate, well argued, and well-documented strategic plan to Congress as the cornerstone of his strategy for obtaining members’ support for public funding.

On its face, this makes perfect sense. Why should anyone support a request for the expenditure of public funds without having a clear plan of what the expenditures will accomplish?

Despite the good sense it makes to “budget to a plan”, public expenditures are frequently approved based on who supports what, rather than on a clear understanding of what exactly the expenditures will accomplish.

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Public Budgeting is not about numbers; it is about making Democratic governance work.

During the debates leading to the creation of the American Constitution, taxation and public expenditures were one of the driving forces leading to the creation of our peculiar and complex system of separation of powers and checks and balances.

Our various state and local democratic constitutions give the executive branch the power to propose a budget and collect taxes, but the authority to authorize and appropriate funds is lodged in the legislative branch.

For other words, budgeting is focusing or pay attention to higher efforts to exists the financial sources to fulfill the needs of society. Caused money are limited, budgeting are one part of alternative to choose the sources and when the chosen are made by government to achieve one goal, its call one planning.

According to the Webster’s Dictionary:

A Budget – Is a Plan that clearly defines the estimate Expenditure and Revenues of a program (or Project).

According to B.J. Reed & John W. Swain:

Capital Budget – Is a Financial plan of action (of the government), in directing the funding of improvement, facilities, and equipment, for the immediate, intermediate, and long-term future.

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\(^1\) Refer to Webster’s New World Dictionary. New Jersey: Prentice-Hall.

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According to Ekstein (1973);

\[\text{Public Budget is a statement entailing (detailing) the revenues and expenditures of the government.}\]

According to Felix & Nigro (1983);

\[\text{Public Budget is the Financial Plan of the government, which determines the proposed revenues and expenditures, so as to achieve the goals and objectives (of the nation).}\]

According to Goode (1984);

\[\text{Public Budget is the process, which involves the planning, preparation, legislation, approval, and evaluation of government resources (revenues) and expenditures.}\]

**Importance (Objectives) of Public Budget:**

1. To plan and control the revenues & expenditures of the government.

   Due to limit resources of the public sector, the government needs to plan carefully the public budget (revenues & expenditures).

2. To control inflation and recession.

This means that the government tries to stabilized the economy of 
the country by – stabilizing the prices of goods and services in the 
market, in akin with the demand and supply of the people.

3. To develop the economy of the country (nation).

Such as, the building of roads, schools, hospitals, bridges, and 
other basic facilities and infrastructures.

4. To develop the Human Resources of the nation.

This means that the government tries to develop a more 
professional pool of human resources and professionals, especially 
among the Bumiputeras.

5. To create a balance and progressive society.

Balance --------- (Eg. moral-ethical society).

Progressive ------ (Eg. local experts being able to face the 
challenges of local & international 
demands).

The multiple purposes of the public budgeting process create a necessary 
meeting ground for democratic claims that almost always are at odds: 
competing demands of interest groups, administrative concerns for 
operational efficiency and program effectiveness.

The objectives of public budget shows as important indicator for leadership 
aspirations of elected officials, taxpayer discontent over excessive spending, 
citizen concerns for ever more responsiveness and accountability, and 
contending ideologies about the proper scope and limits of government's 
reach into the lives of its citizens.
Characteristics and Functions of Public Budget:

Generally the various characteristics and functions of Public Budget are as follows;

Characteristics of Public Budget:

1. It is the Financial Plan of the government.
2. It has a clearly defined Objectives & Action-plans.
4. It has estimate Expenditures and Revenues of a project (or program).

Functions of Public Budget:

1. It acts as a Blue-print (Financial-Plan) of the Ministry of Finance.
2. It acts as a Tool of Control (of the Ministry of Finance).
3. It ensure the Smooth-running of the program.
4. It acts as a Tool to Monitor & Evaluate, the financial performance.
5. It provides the Financial Statement (Debit / Credit) of a program.

In the light of the above characteristics and functions of Public Budget, it should be clear now how these characteristics help the various governmental departments and organizations, in outlining their development budget and programs planning.
Public Budget Approval Process:

- Preparatory Stage
- Approval Stage
- Implementation Stage
- Auditing Stage

(Figure 9.1)

**Preparatory Stage** – The Ministry of Finance is given the responsibility by the government to come-out with a viable Financial Budget for the country. And the budget is hoped to encourage economic development and social change, and to benefit the majority in the society.

In this regard, the Ministry of Finance will first have to come-out with a *rough outline*. This is done after the various Ministries of the state send their proposed budget to the Ministry of Finance.

**Approval Stage** – This is the stage where the Ministry of Finance, after going through the various proposed budgets that were sent to it, by the various ministries, then after sitting in a meeting, come out with the final proposed Budget for the country. The *Proposed Budget* is then send to the Parliament for debate.

After the First, Second and Third Reading, the proposed budget will be approved by both the Dewans in the Parliament.

**Implementation Stage** – The Implementation stage is the stage where the proposed budget is executed, through the various ministries of the government. Thus, each ministry will receive the amount of money that they request for.

In this regard, both the Operational Cost (Operation Budget) and Development Cost (Development Budget) of the various Ministries are taken into consideration, and a fair amount are allocate for these.

**Audit Stage** – The audit stage is the final stage of the cycle. This is the stage where the various ministries are held *accountable* for the resource (money) that their departments accepted.
Thus, all revenues and expenditures should be recorded accordingly. Sometimes, *External Auditors* are call upon to check the account of the departments, to ensure that the money is correctly recorded and spent.

**PROCESS OF BUDGETING SYSTEM IN MALAYSIA**

However, a more detail Public Budget approval process in Malaysia are as follows:

1. Issuing of directive (by the government)
2. Preparing Budget Proposal at the departmental level
3. Commentary on Budget Proposal by the financial controller
4. Budget Proposal submitted to the Central Agency (eg. EPU)
5. Central Agency & ministers jointly examine the budget proposal
6. Minister of Finance presents the budget in Parliament
7. YDPA approval is sought
8. Distribution of funds / allocations for the projects
9. Inspection / evaluation by the Auditor General

From the above mentioned process, one can observe that the various steps civil employees and head departments undertake are necessary to ensure a more effective, and transparency work procedures. It is also necessary to stream out corruption and encourage a more responsible workforce that could positively contributed to the development of Malaysia.

The public budgeting process bears the burden of reconciling this very complex array of competing purposes with quite different sets of information and expertise that are the standard bearers for these purposes.

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Frequently, we judge the success of our systems of government by how well they accomplish this monumentally difficult budget-balancing task.

In the final analysis, and perhaps most importantly, public budgeting is more about successfully reconciling these competing purposes than it is about managing numbers and technical expertise.

The 5 major principles in budgeting provided

1) Annuality
This principle shows that the budgeting is made for certain term and usually in one year. Example at Malaysia, budgeting year are same with fiscal year. The budgeting year that are make it must standardized with government in long term planning like planning for five years.

A period after the close of the regular fiscal year during which uncompleted collections and payment for commitments may be carried out and assigned to the previous budgetary period. It may be several months in duration\(^7\).

In some countries, the accounting period includes a “complementary period” for payments (e.g. 30 or 60 days) after the close of the fiscal year.

Payments over the complementary period that are related to transactions (commitments and deliveries) incurred during the previous fiscal year closed are reported as expenditure during that year.

In some countries, both paid and unpaid payments orders are recognized as expenditure during the complementary period. The period of time for which parliament authorizes expenditures and other budget transactions.

In a number of budget systems, actual allocations, commitments, deliveries, and payments relating to government expenditure programs may extend beyond the year for which they were originally appropriated.

2) Comprehensiveness
Comprehensiveness of the budget means that the budget must encompass all the expenditures, revenues, borrowing and other financial activities of the government.

This creates a framework that promotes sound appraisal of competing policy options, and efficient budget planning and execution.

3) Functional classification and Specific
This principle more focuses in to ensure the budgeting must give first priority for that the important spending and must determine the consequences that spending are first on top.

The example is in Long Term Government planning, DEB as one major player to focusing on the rural development and agriculture to fulfill the government objective to reduced the poverty level and rearrangement the society.

4) Accuracy
The all revenues and spending that show-off in budgeting must be appearing even that only the estimate by public agencies. The budgeting must design in estimate amounts and not in net amounts to show to public the estimate can giving the tool of budgeting can implement.

5) Legitimacy and Prior Authorization
Legitimacy means that decision-makers that can change policies during implementation must take part in and agree to the original policy decision, whether it is made during the process of formulating the budget or at some other time.

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At Malaysia, the responsibility and accountability to decide how much sources and allocation are need by government can avoiding interfere from law body.

It is caused the Parliament don’t have clearly a delegation of power between Executive and Law Body. The Law Body must approve the draft before executive body to implement.

**TYPES OF PUBLIC BUDGETING SYSTEM:**

There are many types of Public Budgeting System, however in this chapter only four such types will be discussed, these are;

1. Traditional (Classical) Budgeting System (TBS)
2. Program Planning Budgeting System (PPBS)
3. Modified Budgeting System (MBS)
4. Zero-Base Budgeting (ZBB)

1. **Traditional (Classical) Budgeting System (TBS):**

The Traditional Budgeting System or sometimes also known as the Classical Budgeting System is among the earliest form of formal budgeting system used by the Finance Ministry in most countries, especially before World War II.

The TBS emphasized on “Line-Item Budgeting” which means to say that all the public budget (revenues and expenditures) is being itemized according to the objectives as highlighted in the budget.

\[
\begin{array}{ccc}
\text{TBS} & \text{Itemization} & \text{Objectives of Government} \\
& & (\text{of Public Budget})
\end{array}
\]

Thus, if the government budget specified the purchasing of 100 chairs, only 100 chairs are to be bought.
In addition to that, all public budget has to be approved by the Central Government (Federal Government) before the revenues and expenditures can be used.

2. Planning Program Budgeting System (PPBS):

The PPBS is also known as the “Rational Comprehensive Budget.” It tries to look at the subject matter of public budget from a rational point of view.

The PPBS was introduced in Malaysia by the United Nations in 1968, and thereafter it was approved and implemented by the Malaysian government under the Treasury Circular Bill-5 1968 (Treasury Circular Bil.5, 1968).

Even though the PPBS emphasize on the detail planning of the various development programs of the government, in order for any budget to be approved, but it is not as rigid as the “Line Item Budgeting System” as used earlier.

The PPBS is a “Performance Budget” and was used intensively especially during the 1960s, 1970s and even till today in some parts of the world.

The PPBS focus on the *indepth analytic* justification requires for the various governmental programs in term of costs and public choices. In addition to that, the PPBS focus more on the **output** of the public budget.

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Table 9.2

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The background of Program and Performance Budgeting System

- Come from the system of Britain budgeting that applied at Britain and our financial are more alike Britain financial in our constitution.
- The budgeting system that applied in our country until existing of ‘Pekelliling 5/1968’ that formerly known as ‘Traditional Budgeting System’ or in other name as ‘line item budget’.

The (PPBS) that is basic from United Nations Manual for Programmed and Performance being introduced at Malaysia at 1968 through ‘Treasury Circular (5/1968). All public agencies are needed to provide the budgeting follow the (PPBS) principles since 1969.

Before change to (PPBS), Malaysia already uses the system that formerly known as ‘Traditional Budgeting System’ that using the ‘input oriented’, caused only focused on expenditure.

Causes the existing of (PPBS) at Malaysia.
1) The increased on expenditure of federal government
2) The lack of TBS caused not alert about the performance measurement, distribution of resources and not focused on government objective
3) The PPBS maintaining focuses on the output that clearly in goal, objective and production and not only focused on staff, tools and maintenance.

(PPBS) are including a few criteria that as follows;
a) Determined the purposed that that achieve
b) Program planning
c) The program frame structure
d) Existing of performance indicator
e) Existing of annual target
f) Evaluate and analysis of performance
g) Reevaluate of program

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Ibid. p.78-79.
The advantages of (SBPP)
1) Focused on **effectively resources** in produced output and encouraging the
   government and agencies to evaluate the function, responsibility and their
   roles to achieve goal and purpose in developing country.
   2) Encourage the produced of smooth information’s in right timing
   3) Have a performance measurement that frame and using to public
       benefits.
   4) Having a program evaluation that important to gain reaction from public
       about the government programs
   5) Can help the other agencies to manage, organizing and control with
       better planning, efficiency and effectively.
   6) Try to fits the lack of TBS with assume to one ‘**basis for making program**
       decision in the operating agencies would be improved’

The disadvantages of (SBPP)
1) Difficulties to decide clearly goal (must involve many r&d to knowing the
   public needs and expertise to making research)
2) Difficulties to choose fits program that connecting with social values.
3) The performance is tough to measure (many public agencies with diversity
   of goals)
4) Difficulties to hired the expertise and experiences (even having many staff
   but the expertise a little bit)

(Figure 9.2)

29 Ibid, p.80-81.
The PPBS is a practical (rational and comprehensive) budget introduced to solve the problems (wants & demands) of the people. And in the process, fulfilled the goals and objectives of the government in developing the nation.

3. Modified Budgeting System (MBS)
   - MBS is one performance system that focused on relationship between input-output-impact
   - MBS can help to completely implementation in administration approach like Productivity, Entire Management Quality, Sistem Saraan Malaysia (SSM) and so on. This system is basically by (PPBS) and just incremental a few process in expenditure management.

WHY USING MBS?
A) Focused in provide, checking, implementation on annual budgeting in 'line items level.
B) Indicators performance not fully attention in resources management.
C) The approach in provided the expenditure is bottom-up
D) Expenditure is using for tool of 'funds disbursement' and not as tool of management.
E) The delegation of power is made to decide the limitation of financial decisions.
F) Exits of ‘dichotomy between decisions making on financial management and decision about policy and implementation in programs and activities'\(^{30}\).

The criteria of MBS
- Having a limited expenditure
- Program agreement and exemption report
- One cycle of program evaluation
- One approach that more focused on expenditure control

\(^{30}\) Ibid, p. 93-95.

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MBS having all criteria alike SBPP that implement at Malaysia since 1969.

The MBS is set to be the outcome of the PPBS. It is the advance Budget system after the PPBS. It was introduced in 1990 in Malaysia.

**MBS Objective**

a) Help the program managers increased the performance program

b) Easier to handling responsibility and accountability

c) Repairing the resources allocation

**2.5 Important principles in MBS**

1) **Decentralization**

- The power in decision making must give as soon as well to down level to make decision about the program and their projects.

- Its must based the Principe 'Let Managers Manage' and the federal government not controlling directly in expenditure of public agencies. Besides of that, federal government can give focused on performance measurement to other agencies.

- In addition to that, the MBS gives the State government and Local government more power and autonomy in administering their budget and development programs.

- This is important so that the State government and Local government can address the problems of the local people more rapidly, efficiently, and effectively.

2) **Accountability**

- The power that gives must suitable with accountability principal. In this case, public agencies have their own power to manage and control their program activities.

- This will eventually give the State government and Local government more confidence and motivation, in administering and improving the social conditions of their locality - and improve the overall channel (and
integration) between the Central government (Federal Government) and the State government.

- Clearly, from the above discussions, the MBS can be seen as facilitating or promoting better program management through the adoption of better management practices among civil servants.

The advantages of MBS

- The federal government have their own alternative to avoid the cut of budgeting with determined the well resource distribution between agencies that based on their achievement before.
- MBS more focused in policies and activities achievement and can reduces of involving in details expenditure by ‘Control Officer Treasury).
- ‘Control Officer’ has main role in budgeting and using it as tool in management.
- MBS can exist of the close relationship between top management to down staff about the power and authority.
- MBS also can help becomes a good integration in decision making about program and activities can increase.
- The Motivation among down staff can upgrade with fits terms and condition in distribution and allocation of resources.
- The public agencies more accountability on their performance achievement with follows by rules.
- MBS can increase the using of strategy planning as a basic in provides the better expenditure.

One of the main objectives of MBS was to introduced (or promote) a rational allocation of resources to government programs. It essentially follows most of the outlines and steps as highlighted in the PPBS - however, the MBS focus on;

1. The Input, Output, and Impact (of the various development programs).
4. Zero-Base Budgeting (ZBB):

The Zero-Base Budgeting system was made famous and implement by President Jimmy Carter of the United States of American.

The ZBB system operates by examining the possibility of decreasing some programs while increasing other more prudential ones. Based on Fremont and Earnest, ZBB is ‘one process that focused on management accountability for planning, budgeting and evaluation’.

ZBB is provided to analysis the alternative approach to implementation in diversity of level. It's including the frame of new program with suitable policies and what the priority of the social needs.

Statement by David W. Singleton, ZBB is trying to change the traditional budgeting system through the one process of resources distribution that include the recommendation activities to related with small units to operating\(^{31}\).

\(^{31}\)Ibid, p.98-100.
For the few years, the expertise and economic members using the ZBB technique to analyze and reframe the organization way to achieve the diversity of objective.

According to Graehme M.Taylor, he stated that the ZBB has 3 basic elements:

1. **Identification of “decision units.”**
   - This stage requires the government (Finance Ministry) to identify the important development Budget (and programs), and to put them down in writing. Determined of ‘decision units’ (the bigger capital and giant projects, the special purpose, the determined the priority of the agencies purposes).

2. **Analysis of the “decision units”** (or Decision Packages) and its functions.
   - This stage requires the Finance Ministry to analyze the Budget, with regard to its benefits and costs – to the society. Analyze the each unit decision in ‘decision package’ (one documentation that including of determined and explanation of each decision units to evaluate and approved the validity or not).

3. **“Ranking” the decision packages**, in order of importance.
   - This stage requires the Finance Ministry to prioritize the various development programs (and Budget) in order of importance and

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urgency. Evaluate and listing or give the level for all ‘decision package’ for smooth in demand of aggregate.

- Provide and details in way of expenditure that show-off the agree decision making by all participants.

The Advantages of ZBB.

- The projects or program that have lower priority can delay, reduce or eradicate.
- The effective of program can be repairing and the changes whether negative or positive can try to explain in expenditure.
- The programs that higher impact can increase the extra funds modified the agency resource\(^{33}\).
- Pay attention for activities in all level in public agencies and can exist of closed relationship one unit to other units.
- Can easily measure the performance caused have a clearly zero-base system. It’s caused the program with lower priority can put outside.

The Disadvantages of ZBB

- The process of ZBB needs a strong relationship to ensure the effectiveness in administration; relationship and training to managers in analyze system. This process can effect the group of bureaucrat caused it’s about the evaluation on their program effectiveness.
- The managers have many problem in determined the suitable units to making decision, determined the maximum level to efforts and level of programs in different way.
- Take times caused involved many participants by agencies and units for activities planning and how to implementation.
- Too many work proposals to listing the all activities for each unit.
- Sometimes the officers too detail and many ideals that make the program difficulties to achieve.

\(^{33}\) Ibid, p. 102-104.
Easier in program justification that can reduce the expend for not priority activities caused the ZBB more flexible in determined expenditure for implement the government activities.

The benefits (pros) of the ZBB is that, less important and urgent development programs and projects can be delayed, and the necessary Budget can be utilized for other more important and urgent programs and projects.

In addition to that, the ZBB is said to be more efficient and effective (as compared to other Budget method or system) in hastening the pace of development and fulfillment of the goals and objectives of the nation.

CONCLUSION

As a concluding remark, it is not brisk to say that Public Budget is the backbone of every governmental organizations and departments, without which the smooth operation of an organization can be totally disrupted. Thus, proper and prudential planning on the Federal government, State government, and Local government sides with regard to project feasibility and urgency of projects are highly encouraged.
REFERENCES


6. PUBLIC BORROWING

PUBLIC BORROWING

6.1. INTRODUCTION: INTERNAL & EXTERNAL SOURCES
6.2. WHY GOVERNMENT BORROW (OBJECTIVES)
6.3. IMPLICATIONS OF PUBLIC BORROWING
   (INTERNALLY & EXTERNALLY)

6.1. INTRODUCTION: INTERNAL & EXTERNAL SOURCES

Public Borrowing or sometimes also known as Government Borrowing or Public Debt essentially means that the government is borrowing money, capital, manpower, expertise, etc., from internal or external sources.

And among the internal sources of PB are from;

1. Central Bank (Bank Negara)
2. Financial and Commercial banks
3. Selling of government bonds
4. Public Fund (eg. EPF, MARA, etc.)

The external sources of PB are;

1. World Bank
2. IMF (Internal Monetary Fund)
3. United Nations
4. Japanese Government

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5. US Government etc.

6.2. WHY GOVERNMENT BORROW (OBJECTIVES)

Sometimes Government has to borrow from either internal or external sources to solve the financial crisis in the country. Among the fundamental reasons why government is forced to borrow are;

1. To increase public resources (public revenues)
2. To overcome temporary budget deficit
3. To overcome economic recession (depression)
4. To finance economic development programs
5. Due to the unpopularity of taxes
6. Due to natural disaster
7. Due to war-time

6.3. IMPLICATIONS OF PUBLIC BORROWING (INTERNALLY & EXTERNALLY)

The implication of Public Borrowing are many, however, a few basic consequences are;

1. Economic implication
The economic implication of Public Borrowing (Public Debt) is the enormous returns plus interest imposed by the foreign banks on the local government, and become a public burden.

In most cases, the local government (especially from the Third World countries) cannot repay the loans that they borrowed from these international banks. Thus, they become life-long borrowers and debtors to these international banks.
The implication is the indirect control and dictate by these international banks (which are controlled by a few Developed countries such as US and Britain) on the local government of Third world countries.

2. Political implication
Likewise, the political implication of Public Borrowing from external sources, such as, the World Bank and IMF is that, Third world countries such as Malaysia, Indonesia, Thailand, Vietnam, Laos, Mexico, and so on, are under the dictate of these foreign government, directly or indirectly.

Thus, these recipient states are always under the dilemma of following the policy of donor countries, such as, the United States, Britain, and so on. This will indirectly weaken the autonomy and independent of decision-making of these Third world countries.

CONCLUSION

As a concluding remark, Public Borrowing essentially refers to how a country (government) obtain loans or borrows from, internal or external sources, to finance and facilitate in its development plans and programs – for the development of the nation as a whole.

Sometimes government needs to borrow from external source due to the limit resource of the locality. For example nations in Third World countries such as, Thailand, Indonesia, Cambodia, Laos, Vietnam, Malaysia, Argentina, Nigeria, and so on.

However, the political or hidden agendas of the borrower states (or Institutions) should be caution by Developing Nations in order to avoid neo-Colonialism phenomena.

REFERENCES


7. THE LEGAL IMPLICATIONS OF FINANCIAL ADMINISTRATION

THE LEGAL IMPLICATIONS OF FINANCIAL ADMINISTRATION

7.1. FINANCIAL PROCEDURE ACT 1957

7.2. ORDER OF TREASURY

7.3. AUDIT ACT 1957 (AMENDMENT 1978)
This act was enforced starting from 1st January 1968, which essentially involves all public accounting officers.

The Financial Procedure Act 1957 has 3 main functions (under the Kumpulan Wang yg. Disatukan);

- Akaun Hasil Disatukan
- KW yg. Disatukan
  - Akaun Pinjaman yg. Disatukan
  - Akaun Amanah yg. Disatukan

All in all, the Financial Procedure Act 1957 has managed to provide a clear-cut line of authority for bureaucrats in managing and controlling public funds (public revenues & expenditures).

Overall, this Financial Procedure 1957 is one act that allocates control and public financial management. It’s included the procedure like collected, keeping and payment public money, for buying, keeping and public property eradicate except land.

This act is allocates control purchasing and Public financial management of Malaysia. It’s also setting the rules of financial and accounts, including collected, caring and payments of federal and states public money.

This section of the book has been complied by the author from various sources:
LEGAL IMPLICATION OF PUBLIC FINANCIAL ADMINISTRATION

The principle of Public Finance is refer to legal framework while legal framework is refer to act of finance include of Federal Constitution, Treasury transaction, Financial Act and Audit Act. Legal framework is refer to act, regulations and instruction pass by the government through a parliamentary process as a centralize and a standard rules and procedure of managing public money throughout Malaysia. Each of legal frameworks explains the specific standard rule and procedure for the implementation of the specific tasks by a specific officer or government department. Basically these entire legal frameworks were made by referring to Federal Constitution.

The legal framework relate to management of public money are such as Treasury Instruction, Federal Constitution, Audit Act and Financial Procedure Act which explain about it. Treasury Instruction is a special instruction explains about the accounting and financial procedure such as it explains how to pay for any buying using public money, how to keep it, and how to collect public money in detail. The instruction is intention from the financial provision of Federal Constitution.

In Part 7 of Federal Constitution, there is an explanation about the management of public money. It includes all financial procedure whereas the other explains the specific procedure. Besides that, Audit Act is an Act asks in order to give some power to Federal and State government to check the account. The Financial Procedure Act provides the procedure to control and collect payment.

FINANCIAL PROCEDURE ACT 1957

It is an Act to provide for the control and management of the public finances of Malaysia, and for financial and accounting procedure, including procedure for the collection, custody and payment of the public moneys of the Federation.
and of the States, and the purchase, custody and disposal of public property, matters connected therewith.

This Act explains about 3 main accounts under Consolidated Fund and how the expenditures from the accounts are enforced. The first account is Consolidated Revenue Account, which is the account for all money received including grants.

Second account is consolidated Loan Account in which account shall be kept of all money received by way of loan upon the public credit of the Federation or of the State.

The last Account is the Consolidated Trust Account which account shall be kept of all money received subject to a trust and to be applied in accordance with the terms of the trust.

This Act also consists of some limitation and restrictions regarding the power of Federal Gout. There are also provisions under this act pertaining to the write-off, surcharge and auditing of annual account statement that is prepared by the Treasury.

**CONSOLIDATED FUND**

Refer to the overall fund created under Article 97 of the Federal Constitution. There shall be 2 such funds, one for the Federal Government and another for the States. All revenues and money raised or received by the Federal Government should be kept in Federal Consolidated Fund. All revenues and money raised or received by the States should be placed in the State Consolidated Fund Article 104 of the Federal Constitution states that no money shall be with drawn from the Federal Consolidated Fund unless expenditure is authorized by Parliament (by a Supply Act) or charged on the Consolidated Fund. After the approval of the Supply Act, the Minister of Finance issues a General Warrant to the General Accountant authorizing him
to withdraw from the Consolidated Fund a specified some of money for a specific purpose and for a particular year. The management of the Federal Consolidated Fund is the responsibility of the Minister of Finance whereas the management of the State Consolidated Fund is the responsibility of the State Financial Officer.

CONTIGENCIES FUND

A fund provided for under Article 103 [1] of Federal Constitution to authorize the Minister of Finance to make advance from the fund to meet urgent and unforeseen expenditure for which no provision exists. Parliament has created such fund under Section 11 of the Financial Procedure Act 1957. Where any advance is made from this fund, a supplementary estimate should be presented and a supply bill will be introduced in Dewan Rakyat for replacing the amount go advanced.

PART VII

FINANCIAL PROVISIONS

Chapter One-General

96. No taxation unless authorized by law.

No tax or rate shall be levied by or for the purposes of the Federation except by or under the authority of federal law.

97. Consolidated Funds

(1) All revenues and moneys howsoever raised or received by the Federation shall, subject to the provisions of this Constitution and of federal law, be paid into and form one fund, to be known as the Federal Consolidated Fund.

(2) All revenues and moneys howsoever raised or received by a State shall, subject to Clause (3) and to any law, be paid into and form one fund, to be known as the Consolidated Fund of that State.

(3) If in accordance with State Law or in respect of the Federal Territories of Kuala Lumpur, Labuan and Putrajaya in accordance with federal law any Zakat, Fitrah, Baitul-mal or similar Islamic religious revenue is raised, it shall be paid into a separate fund and shall not be paid out except under the authority of State law or federal law, as the case may be.

(4) Unless the context otherwise requires, any reference in this Constitution to the Consolidated Fund shall be construed as a reference to the Federal Consolidated Fund.

98. Expenditure charged on Federal Consolidated Fund

(1) There shall be charged on the Consolidated Fund, in addition to any grant, remuneration or other moneys so charged by any other Article or federal law:

   (a) all pensions, compensation for loss of office and gratuities for which the Federation is liable;

   (b) all debt charges for which the Federation is liable; and

   (c) any moneys required to satisfy any judgment, decision or award against the Federation by any court or tribunal.

(2) In making payment of any grant to a State in accordance with the provisions of this Part, the Federation may deduct the amount of any debt

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charges payable to the Federation by the State and charged on the Consolidated Fund of that State.

(3) For the purposes of this Article debt charges include interest, sinking fund charges, the repayment or amortization of debt, and all expenditure in connection with the raising of loans on the security of the Consolidated Fund and the service and redemption of debt created thereby.

99. Annual financial statement

(1) The Yang di-Pertuan Agong shall, in respect of every financial year, cause to be laid before the House of Representatives a statement of the estimated receipts and expenditure of the Federation for that year, and unless Parliament in respect of any year otherwise provides, that statement shall be so laid before the commencement of that year.

Provided that there may be separate statements of estimated receipts and estimated expenditure, and in that case it shall not be necessary for the statement of receipts to be so laid before the commencement of the year to which it related.

(2) The estimates of expenditure shall show:
   (a) the total sums required to meet expenditure charged on the Consolidated Fund; and
   (b) subject to Clause (3), the sums required to meet the expenditure for other purposes proposed to be met from the Consolidated Fund.

(3) The sums to be shown under paragraph (b) of Clause (2) do not include:
   (a) sums representing the proceeds of any loan raised by the Federation for specific purposes and appropriated for those purposes by the Act authorizing the raising of the loan;
(b) sums representing any money or interest on money received by the Federation subject to trust and to be applied in accordance with the terms of the trust;

(c) sums representing any money held by the Federation which has been received or appropriated for the purpose of any trust fund established by or in accordance with federal law.

(4) The said statement shall also show, so far as is practicable, the assets and liabilities of the Federation at the end of the last completed financial year, the manner in which those assets are invested or held, and the general purposes in respect of which those liabilities are outstanding.

100. Supply Bill

The expenditure to be met from the Consolidated Fund but not charged thereon, other than expenditure to be met by such sums as are mentioned in Clause (3) of Article 99, shall be included in a Bill, to be known as Supply Bill, providing for the issue from the Consolidated Fund of the sums necessary to meet that expenditure and the appropriation of those sums for the purposes specified therein.

101. Supplementary and excess expenditure

If in respect of any financial year it is found:

(a) that the amount appropriated by the Supply Act for any purpose is insufficient, or that a need has arisen for expenditure for a purpose for which no amount has been appropriated by the Supply Act; or

(b) that any moneys have been expanded for any purpose in excess of the amount (if any) appropriated for that purpose by the Supply Act,
A supplementary estimate showing the sums required or spent shall be laid before the House of Representatives and the purposes of any such expenditure shall be included in a Supply Bill.

102. Power to authorize expenditure on account or for unspecified purposes.

Parliament shall have power in respect of any financial year:

(a) before the passing of the Supply Bill, to authorize by law expenditure for part of the year,
(b) to authorize by law expenditure for the whole or part of the year otherwise than in accordance with Articles 99 to 101, if owing to the magnitude or indefinite character of any service to circumstances of unusual urgency it appears to Parliament to be desirable to do so.

103. Contingencies Fund

(1) Parliament may by law provide for the creation of a Contingencies Fund and for authorizing the Minister charged with responsibility for finance, if satisfied that there has arisen an urgent and unforeseen need for expenditure for which no other provision exists, to make advances from the Contingencies Fund to meet that need.

(2) Where any advance is made in accordance with Clause (1), a supplementary estimate shall be presented and a Supply Bill introduced as soon as possible for the purpose of replacing the amount so advanced.
104. Withdrawals from Consolidated Fund

(1) Subject to Clause (2), no moneys shall be withdrawn from the Consolidated Fund unless they are:
   (a) charged on the Consolidated Fund; or
   (b) authorized to be issued by a Supply Act; or
   (c) authorized to be issued under Article 102.

(2) Clause (1) does not apply to any such sums as are mentioned in Clause (3) of Article 99.

(3) No moneys shall be withdrawn from the Consolidated Fund except in the manner provided by federal law.

105. Auditor General

(1) There shall be an Auditor General, who shall be appointed by the Yang di-Pertuan Agong on the advice of the Prime Minister and after consultation with the Conference of Rulers.

(2) A person who has held the office of Auditor General shall be eligible for any other appointment in the service of the Federation or for any appointment in the service of a State.

(3) The Auditor General may at any time resign his office but shall not be removed from office except on the like grounds and in the like manner as a judge of the Federal Court.

(4) Parliament shall by law provide for the remuneration of the Auditor General, and the remuneration so provided shall be charged on the Consolidated Fund.

(5) The remuneration and other terms of office (including pension rights) of the Auditor General shall not be altered to his disadvantage after his appointment.
Subject to the provisions of this Article, the terms and conditions of service of the Auditor General shall be determined by federal law and, subject to the provisions of federal law, by the Yang di-Pertuan Agong.

106. Powers and duties of Auditor General

(1) The accounts of the Federation and of the States shall be audited and reported on by the Auditor General.
(2) The Auditor General shall perform such other duties and exercise such powers in relation to the accounts of the Federation and of the States and to the accounts of other public authorities and of those bodies which are specified by order made by the Yang di-Pertuan Agong, as may be provided by federal law.

107. Reports of Auditor General

(1) The Auditor General shall submit his reports to the Yang di-Pertuan Agong, who shall cause them to be laid before the House of Representatives.
(2) A copy of any such report relating to the accounts of a State, or to the accounts of any public authority exercising powers conferred by State law, shall be submitted to the Ruler or YDP Negeri of that state, who shall cause it to be laid before the Legislative Assembly.

108. National Finance Council

(1) There shall be a National Finance Council consisting of the Prime Minister, such other Ministers as the Prime Minister may designate, and one representative from each of the States, appointed by the Ruler or YDP Negeri.
(2) The National Finance Council shall be summoned to meet by the Prime Minister as often as he considers necessary and whenever the representatives of three or more States demand a
meeting, but there shall be at least one meeting in every twelve months.

(3) At any meeting of the National Finance Council the Prime Minister may be represented by another Minister of the Federation, and the Prime Minister or, if he is not present, the Minister representing him, shall preside.

(4) It shall be the duty of the Federal Government to consult the National Finance Council in respect of:
   (a) the making of grants by the Federation to the States;
   (b) the assignment to the States of the whole or any portion of the proceeds of any federal tax or fee;
   (c) the annual loan requirements of the Federation and the States and the exercise by the Federation and the States of their borrowing powers;
   (d) the making of loans to any of the States;
   (e) the making of development plans in accordance with Article 92;
   (f) the matters referred to in Item 7 (f) and (g) of the Federal List;
   (g) any proposal to introduce a Bill for such a law as is mentioned in Clause (2) Article 109 or Clause (3) or (3A) Article 110;
   (h) any other matter in respect of which this Constitution or federal law makes provision for consultation with the National Finance Council.

(5) The Federal Government may consult the National Finance Council in respect of any other matter, whether or not it involves questions of finance, and the Government of a State may consult the said Council in respect of any matter which affects the financial position of that State.

109. Grants to States

(1) The Federation shall make to each State in respect of each financial year:
(a) a grant, to be known as a capitation grant, which shall be calculated in accordance with the provisions of Part I of the Tenth Schedule;
(b) a grant for the maintenance of State roads, to be known as the State road grant, which shall be calculated in accordance with the provisions of Part II of that Schedule.

(2) Parliament may from time to time by law vary the rates of the capitation grant; but if the effect of any such law is to reduce the grant, provision shall be made in that law for securing that the amount of grant received by any State in respect of any financial year is not less than ninety percent of the amount received by that State in the preceding financial year.

(3) Parliament may by law make grants for specific purposes to any of the States on such terms and conditions as may be provided by any such law.

(4) The amounts required for making the grants mentioned in the preceding provisions of this Article shall be charged on the Consolidated Fund.

(5) If, in accordance with Article 103, a Contingencies Fund is created, the power to make advances from that Fund for meeting an urgent and unforeseen need for expenditure shall include power to make such advances to a State for meeting such a need.

(6) The Federation shall pay into a fund, to be known as the State Reserve Fund:
(a) (Repealed)
(b) in respect of every financial year such sum as the Federal Government may, after consultation with the National Finance Council, determine to be necessary,

And the Federation may from time to time, after consultation with the National Finance Council, make grants out of the State Reserve Fund to any State for the purposes of development or generally to supplement its revenues.

110. Assignment of taxes and fees to the States
(1) Subject to Clause (2), each of the States shall receive all proceeds from the taxes, fees and other sources of revenue specified in Part III of the Tenth Schedule so afar as collected, levied or raised within the State.

(2) Parliament may from time to time by law substitute for any source of revenue specified in section 1, 3, 4, 5, 6, 7, 8, 12 or 14 of Part III of the Tenth Schedule or for any source of revenue so substituted, another source of revenue of substantially equal value.

(4) Each State shall receive, on such terms and conditions as may be provided by or under federal law, ten percent or such greater amount as may be so provided of the export duty on tin produced in the State.

(3A) Parliament may by law provide that each State shall receive, on such terms and conditions as may be prescribed by or under federal law, such proportion as may be so prescribed of the export duty on minerals (other than tin) produced in the State.

In this Article, “minerals” means mineral ores, metal and mineral oils.

(3B) Without prejudice to the power to impose conditions conferred by Clause (3) or (3A), Parliament may by law provide for prohibiting or restricting, in, such cases as may be provided by or under the law, the levying of royalties on or similar charges in respect of minerals (whether under a lease or other instrument or under any State enactment, and whether the instrument was made or the enactment passed before or after the coming into operation of this Clause).

(5) Without prejudice to the provisions of Clauses (1) to (3A), Parliament may by law:

(a) assign to the States the whole or any portion of the proceeds of any tax or fee raised or levied by the Federation; and

(b) assign to the States the responsibility of collecting for State purposes any tax or fee authorized by federal law.
(6) The amounts receivable by the States under Clause (1), (2) or (4) shall not be paid into the Consolidated Fund; and the amounts receivable by the States under Clauses (3) and (3A) shall be charged on the Consolidated Fund.

111. Restriction on borrowing

(1) The Federation shall not borrow except under the authority of federal law.

(2) A State shall not borrow except under the authority of State law, and State law shall not authorize a State to borrow except from the Federation or, for a period not exceeding five years, from a bank or other financial source approved for that purpose by the Federal Government, and subject to such conditions as may be specified by the Federal Government.

(3) A State shall not give any guarantee except under the authority of State law, and such guarantee shall not be given except with the approval of the Federal Government and subject to such conditions as may be specified by it.

112. Restriction on alterations in establishments of States

(1) Subject to Clause (2), no State shall, without the approval of the Federation, make any addition to its establishment or the establishment of any of its departments, or alter the rates of established salaries and emoluments, if the effect of doing so would be to increase the liability of the Federation in respect of pensions, gratuities or other like allowances.

(2) This Article does not apply to:

(a) non-pensionable appointments the maximum salaries of which do not exceed four hundred ringgit per month or such other amount as may be fixed by order by the Yang di-Pertuan Agong; or
(b) pensionable appointments the maximum salaries of which do not exceed one hundred ringgit per month or such other amount as may be fixed by order by the Yang di-Pertuan Agong.

Chapter Two-Application to States of Sabah and Sarawak

112A. State audits in States of Sabah and Sarawak

(1) The Auditor General shall submit his reports relating to the accounts of each of the States of Sabah and Sarawak, or to the accounts of any public authority exercising powers vested in it by the State law in either of those States, to the Yang di-Pertuan Agong (who shall cause them to be laid before the House of Representatives) and to the Yang di-Pertua Negeri of the State; and accordingly Clause (2) of article 107 shall not apply to those reports.

(2) The Yang di-Pertua Negeri shall cause any such report submitted to him to be laid before the Legislative Assembly.

(3) The powers and duties of the Auditor General in relation to the accounts mentioned in Clause (1) for any period ending before the year 1969 shall, in the State of Sabah or Sarawak, be exercised and discharged on his behalf by the senior officer of his department for the time being stationed in the State in question:

Provided that during the absence or incapacity of that officer, or a vacancy in his post, those powers and duties shall be exercised and discharged by the Auditor General or such officer of his department as he may designate.

112B. Borrowing powers of States of Sabah and Sarawak

Clause (2) of Article 111 shall not restrict the power of the State of Sabah or Sarawak to borrow under the authority of State law within the State, if the borrowing has the approval of the Central Bank for the time being of the Federation.
112C. Special grants and assignments of revenue to States of Sabah and Sarawak

(1) Subject to the provisions of Article 112D and to any limitation expressed in the relevant section of the Tenth Schedule:

(a) the Federation shall make to the States of Sabah and Sarawak in respect of each financial year the grants specified in Part IV of that Schedule; and

(b) each of those States shall receive all proceeds from the taxes, fees and dues specified in Part V of that Schedule, so far as collected, levied or raised within the States, or such part of those proceeds as is so specified.

(2) The amounts required for making the grants specified in the said Part IV, and the amounts receivable by the State of Sabah or Sarawak under Section 3 or 4 of the said Part V, shall be charged on the Consolidated Fund; and the amounts otherwise receivable by the State of Sabah or Sarawak under the said Part V shall not be paid into the Consolidated Fund.

(3) In Article 110, Clause (3A) and (4) shall not apply to the State of Sabah or Sarawak.

(4) Subject to Clause (5) of Article 112D, in relation to the State of Sabah or Sarawak Clause (3B) of Article 110:

(a) shall apply in relation to all minerals, including mineral oils; but

(b) shall not authorize Parliament to prohibit the levying of royalties on any mineral by the State or to restrict the royalties that may be so levied in any case so that the State is not entitled to receive a royalty amounting to ten percent ad valorem (calculated as for export duty).

112D. Reviews of special grants to States of Sabah and Sarawak
(1) The grants specified in section I and subsection (1) of section 2 of Part IV of the Tenth Schedule, and any substituted or additional grant made by virtue of this Clause, shall at the intervals mentioned in Clause (4) be reviewed by the Governments of the Federation and the States or State concerned, and if they agree on the alteration or abolition of any those grants, or the making of another grant instead of or as well as those grants or any of them, the said Part IV and Clause (2) of Article 112C shall be modified by order of the Yang di-Pertuan Agong as may be necessary to give affect to the agreement:

Provided that on the first review the grant specified in subsection (2) of section 1 of the said Part IV shall not be brought into question except for the purpose of fixing the amounts for the ensuing five years.

(2) Any review under this Article shall take into account the financial position of the Federal Government, as well as the needs of the States or State concerned, but (subject to that) shall endeavour to ensure that the State revenue is adequate to meet the cost of State services as they exist at the time of the review, with such provision for their expansion as appears reasonable.

(3) The period for which provision is to be made on a review shall be a period of five years or (except in the case of the first review) such longer period as may be agreed between the Federation and the States or State concerned; but any order under Clause (1) giving affect to the results of a review shall continue in force after the end of that period, except in so far as it is superseded by a further order under that Clause.

(4) A review under this Article shall not take place earlier than is reasonably necessary to secure that effect can be given to the results of the review from the end of the year 1968 or, in the case of a second or subsequent review, from the end of the period provided for by the preceding review; but, subject to that, reviews shall be held as regards both the States of Sabah and Sarawak for periods beginning with the year 1969 and with the year 1974, and thereafter as regards either of
them at such time (during or after the period provided for on the preceding review) as the Government of the Federation or of the State may require.

(5) If on the occasion of any review under this Article the Government of the Federation gives notice to the States or State concerned of their intention to vary any of the assignments of revenue under Part V of the Tenth Schedule (including any substituted or additional assignment made by virtue of this Clause), or to vary Clause (4) of Article 112C, the review shall take the variation into account, and provision shall be made by order of the Yang di-Pertuan Agong so as to give effect to the variation from the beginning of the period provided for on the review:

Provided that this Clause shall not apply to the assignments under sections 4, 7 and 8, and shall not apply to that under section 5 or 6 until the second review.

(6) If on any review the Federal Government and the Government of a State are unable to reach agreement on any matter, it shall be referred to an independent assessor, and his recommendations thereon shall be binding on the governments concerned and shall be given effect as if they were the agreement of those governments.

(7) Clause (4) of Article 108 shall not apply to require the Federal Government to consult the National Finance Council in respect of matters arising under this Article.

(8) Any order of the Yang di-Pertuan Agong under this Article shall be laid before each House of Parliament.

**Order by Treasury**
- Order by treasury is one order that include ways or control level for accounts, accept public money, buying by contract, tender and how to make eradicate of property or public assets. The treasury order usually including keeping procedure of financial records, eradicate or auditing.
The treasury order exposed to give a detail guidance and procedure that must follow in public financial management. This order exposed under seksyen 4 Akta Acara Kewangan 1957 which Treasury can give any order about procedure of financial and accounting as soon as not against with act under federal and state government.

Order by Treasury is ‘rules and regulations’ that relate with control and public financial management of federal and state government. It’s including the approach in how to expend and administration setting in public accounts.

REFERENCES

8. PUBLIC ACCOUNTING

8.1 Accounting Concept
8.2 Definition of Accounting
8.3 The Objective of Accounting
8.4 The Important of Accounting
8.5 Types of Public Accounting

8.1 Accounting concept
Generally, accounting system is one way to records the all expenditure and revenues in special format that systematically compiling in financial report.

In these records, it's including the format, records, rules, and procedures as a tool in using recording, shorting and reporting financial data that need by management party.
The accounting system supposed to showing off what already pay off and already give and must follows by rules and standard by policies that already exists to ensure the efficiency of financial data and information records.

8.2 Definition of accounting
Accounting is one aspect of art that record the all government transactions and to ensure all transaction is right recording and follows the rules that allocate and already setting.

Accounting also state as activities or process to provide, analyze, comment, recording, keeping and interpretation of data and information transactions in public agencies to seeing the financial condition and financial performance in public agencies.

There is a few aspects in accounting like as follows;

a) Provided
To provide the all-financial transaction.

b) Analyze
Report about the statement and financial transaction including expend and revenues and completely with the consequences.

c) Comment
To approve conclude and shorting the statement of financial transaction report to save time in knowing the content in that report.

d) Recording
The process in statement of expend and revenues financial transaction.

e) Keeping
The process that accounting records keeping with systematically and latest references.

f) Interpretation
The process of interpreting all financial transactions through the complete statement follows the related accounts.

8.3 The Objectives of Public Sector Accounting

a) ‘Return report’

b) Public accountability

c) Constitution and law like Financial Procedure Act 1957 and Order By Treasury.

d) Public Expenditure Policy’

e) Top management analyzes the information and accepted of information 35.

8.4 The Important of Accounting

1) To ensure the smooth of the process of provide, comment, recording, analyze, keeping and interpretation.

2) To existing the right of each spend of public money and revenues

3) To knowing the financial condition

8.5 The Types of Public Accounting

In discussion of accounting system at Malaysia, we must pay attention for the basic in public accounting, which involved 2 basic as follows;

1) Cash Accounting

2) Accrual Accounting

1) Cash Accounting

In this cash accounting basic, the revenues only state or record when the total of money are accepted. It’s also in one buying transaction only state when already record or state after the payment is done.

Since 1974, government starting with the ‘Modified Cash Accounting’ that showing 12 month accounts (January-December). The purpose of these accounts is to standardize all brochures for December for next year.

In this accounts, a few terms and condition must follows as below;

a) The allocate of current year must enough and using the coding structure.

b) The order of purchasing at least must arrived at 31 December before New Year. The accounts that pay for next year are called ‘Accounts Payable’.

c) The ‘Modified Cash Accounting’ which continuously timing until January next year.

d) Must standardize all brochures at December before. January next year is ‘Account Payable’ for purchasing or stuff that accepted before 32 December.

2) Accrual Accounting

The Accrual accounting has alerted the revenues that based on time gaining or transaction time without waiting for accepted of money. With that money, the items about expend will record when one ‘commitment’ already making without waiting for payment.

This account not showing in final account but only appears as one memorandum only. The using of vote book is one of aspect of accrual accounting which vote book as domain controlling in accrual accounting.

This accrual accounting better rather than cash accounting caused its pay attention more on total of cost in one duration whether long term or short term and can help in provide the specificity of budgeting at Malaysia\textsuperscript{36}.

Overall, Malaysia has 2 accounting system that manage by departments and agencies as follows;

1) Self-Accounting System Department

\textsuperscript{36} Ibid, p. 214-216.
‘Departments or agencies will presentation their own account to ‘National Accountant’ or State Accountant without brochure’.

This statement means that department or agency manages his or her own accounts but this accounts still under inspection by National Accountant in certain duration. Department or agency has their own autonomy in financial allocation that already approved caused all expend brochures manage and keeping by their own department.

The department or agency that state as self-accounting system is like department or agency under Education Ministry, Wealth Ministry, Agriculture Ministry, Defend Ministry, Treasury, Pension at JPA, Kastam and Eksais Diraja Department and so on.

The Ministries that using a Self-Accounting system is big ministry and this service given to ministry to ensure that ministry can doing their function as fast as good from financial aspect cause they has own account to implement itself. All revenues that gained is enter in one fund that formerly known as Consolidated Fund.

2) Non-Self-Accounting System Department

The departments that not manage their own accounts which all account manage directly by Public Accounts Committee (PAC) including the all payment that must doing.

Departments and agencies that non-self-accounting system that accepted of big financial allocation is National Development Ministry, Land Improvement Ministry and Territories, JPA and 2 agencies like Internal Affair Ministry and Commerce and industrialization Ministry.

Self-Accounting System Departments and Relationship with Consolidated Fund.
Based on Federal Constitution in Clause (97), Consolidated Fund is all revenues or accepted of money with any ways by Federal or State must enter in Consolidated Fund for Federal and for State.

Based on Financial Procedure Act 1957, 3 separated accounts are manage under Consolidated Fund as follows;

1) Consolidated Revenues Account (CRA)
- CRA is domain account that all revenues are credit off accepted of revenues and debit off for all expend budgeting. The sources of State revenues are enter in Consolidated Fund State like revenues from land, Forrest, licenses, entertainment duty, court payment, rent, interest, punishment, zakat, fitrah, baitulmal Majlis Agama Islam, revenues from municipal, district and so on. These items all allocate under ‘Jadual 10 bahagian 3’ on Federal Constitution.
- The sources of Federal Government that enter in Consolidated Fund for Federal Government revenues like income taxes, import duty, car and motorcycle license.

2) Consolidated Trust Account
Under this account, there have 6 components as follows;

a) The group of Development money
Its including the accepted by loan that purpose for development and accepted by loan return. Money of these accounts just only expends to purpose like development that including the directly expenditure and giving, loan and investment\(^37\).

b) The group of Housing Loan Money

This component is exists for give easy housing loan for public servants and related staff. Accepted of this component is from group of development money Revenues Account, accepted of interest of housing return loan.

c) The group of Public Trust Money
This group is exists under Section 10, Financial Procedure Act 1957 for certain purpose in Federal Constitution.

d) The group of Public Trust Money
Exists under Section 9, Financial Procedure Act 1957 that from special money group for government and trust money for certain purpose.

e) Deposit
Trust account for deposit has accounts for special accepted for certain meaning under any law or any agreement.

f) Payable Account
For this account, its one total of debt for purchaser good and services that gained by government which the payment making in January next year.

3) Consolidated Loan Account
This account includes the all loan record that accepted. The total of loan that accepted by public authorities must be credit in APYD. In this account has 2 components as follows;
   a) Loan
   b) Public Debt

The Contribution of ‘Public Account Committee’ in Accounting
In public accounting system, Public Accountant is one group of professionalism. Many critics that they facing off but government must take

Zaherawati
the good approach in accounting system to return report for public how far the public agencies and department performance.

The government can achieve their goal and objective in economic, effective and efficiency through the roles and contribution of Public Accountant as follows;

a) Control in all payment aspect in expend of federal government and planning in collected of public revenues.
b) Provide and recompiling the annual financial statement.
c) Ensure the all expenditure transaction must details and must making an accounting audit.
d) Accountability for determine of accounting polices in public sector
e) Advisor and supervisor

Problem and Prospect of Public Accounting System
1. Public accounting system facing problems in lack off expert officer in accounting field.
2. Difficulties to staff at accounting department in gained complete data and information caused government has many department and agencies to control.
3. Public accounting system also facing problem with uncompleted data and information caused the ineffectiveness recording and technical mistaken.
4. Public accounting system also must facing with uncertainty of policies by government that always change time by time and cause the inflexible policies to follows.

There have a few prospects that can determine in public accounting system like as follows;

1) Must development the training in accounting to public servants to more exposed in accounting field.
2) Offer one attractive incentive to interest among expert’s worker in work with government.
3) The government must provide the modern technologies in recording data and information to avoiding of technical mistaken in accounting.
Conclusion
Accounting is one process of statement, recording, collected, analyze and keeping of data and financial information that purpose to seeing the performance and condition of financial.
The accounting system is not seeing profits but as one system that explain and help the management and ensure the public transaction in financial activities are right enter and follows by rules.

REFERENCES
9. PUBLIC PROCUREMENT IN MALAYSIA

PUBLIC PROCUREMENT: PURCHASING & SUPPLY

9.1. INTRODUCTION & DEFINITION
9.2. OBJECTIVES (& IMPORTANCE) OF PUBLIC PROCUREMENT
9.3. TYPES OF PURCHASING
9.4. FIVE IMPORTANT ELEMENTS OF SUPPLYING

9.1. INTRODUCTION & DEFINITIONS

Public Procurement is the process of purchasing goods and services required by the various governmental departments and agencies, in order to perform the daily routine activities and functions, efficiently and effectively. In addition to that, the purchasing of goods and services also include several activities such as identifying of goods and services to be used in order to perform the activities. Secondly, public procurement means activities of ordering of services and goods required by following specific rules and regulation as prescribed in the Treasury Instruction or Order. Thirdly, it’s also means keeping and maintaining the goods and services purchased, in order to make sure goods and services are in good condition and ready to be used when it is required. Fourthly, public procurement also include the disposal of goods or products, that are old, outdated, or over the expiry date, and thus night need or require higher maintenance services to maintain them. For examples, goods or products of old office equipments and vehicles.

“To purchase goods and services at the right quantity, right quality, and right time, with the right price – that are need by the respective governmental departments or agencies.”

Treasury Order (Arahan Perbendaharaan).
9.2. OBJECTIVES / IMPORTANCES

1. To purchase goods and services at the right quantity, right quality, and right time, with the right price – that are need by the respective governmental departments or agencies.
2. Purchasing of goods and services is important to stabilize and help boost the national economy.
3. Purchasing of goods and services is also important to maintain the daily operation of the various governmental departments.
4. Purchasing of goods and services is also important so as to provide government officers with a conducive working environment to work in.
5. To avoid last minute purchasing, and prepare for the future economic crisis (if any).

CONCEPT OF PURCHASING

Concept of purchasing here means government officers are responsible to purchase the goods and services on behalf of the organization he or she is working in and to ensure the services and goods are at the right quantity, the right quality, and at the price. It also means getting the right suppliers at the right time.

CONCEPT OF OFFERING TENDER

Tender here refers to project that is being offered by government to the local contractors, who can accomplish the mentioned project. A good tender must follow certain procedures and policies as listed by the government. Among these are - the tender must be post on the local newspaper, there must be
acceptance of tender which means that officers should check to ensure the proposals are sent by the contractors in the correct format, order and procedures. In addition to that, the price quotation should also be listed.

Usually after the tender proposal has been submitted to the office by the local contractors, the proposal will be sort out, those that follows the correct format will be taken for considerations. Thereafter, intense evaluation and analysis of the proposal are done by the Director, assisted by the various Head of Units (or Departments). The terms of quality of goods and price quotations are studied in details.

However, in some cases, the contractors usually have to do a short presentation of 15 minutes in presenting their proposal to a committees, headed by the Director, and assisted by a panel which usually consists of head of departments.

**CONCEPT OF STORAGE (Store Management) & DISPOSAL of GOODS**

Storage refers to the process of how goods are being keep and store, for a period of time, until the goods are need in the near future.

The storage of goods include among others - how goods such as office equipments and so on, are being accepted, recorded, kept, store and move.

The proper storage of goods are important so as to insure the goods are in good order once it is needed - and also to avoid accident, mishap, and corruption.

The disposal of goods on the other hand refers to how goods are being disposed of (thrown away). Disposal of goods should also be done accordingly so as to avoid - disposal of dangerous goods such as firearms, erosive materials, flammable materials, radioactive materials, and so on.
POLICIES AND PROCEDURES:
(In Public Procurement)

INTRODUCTION

Government employees (civil servants) must follow the guidelines of public procurement policies and procedures. And generally, every governmental departments (or ministries) have the same policies and procedures with regards to public procurement.

However, the policies and procedures with regard to public procurement can differ based on - the item of goods and services to be purchased. Principally there are four different forms of procurement. These are - Tender, Quotations, Direct purchase or Contract purchase and Emergency purchase.

In each procedures, there are specific rules and regulations to be followed. The rules and regulations are explained in the Treasury Order.

However, in general, the policies and procedures for public procurement are similar whether the purposes for purchasing are different. The general polices and procedures for public procurement are – payment for goods and services must be in Ringgit Malaysia. Secondly, preference of procurement should be on local good and services and local suppliers. Then, preference of procurement also should be given to the Bumiputeras. Lastly, the requirement to do the market survey before buying or offering to the supplier (the project tender).

PROCEDURES IN PUBLIC PROCUREMENT

The Public Procurement Act, in addition to laying down the strict basic principles, rules and procedures for awarding project tender to the successful
contractors, also provides for the control over spending public funds and provision of relevant information on the awarded public procurement.

The adoption of the act aims at creating transparency of the public sectors in awarding public tenders and projects to the local contractors. Furthermore, it helps to bring the national legislation into the field, in accordance with the major directives of the government.

The regulations on the award of public procurement may be found in two separate formative acts – (1) Public Procurement Act and (2) Ordinance on Public Procurement, under the thresholds as provided in Article 7 paragraphs 1 of the Public Procurement Act. The division of the subject matter into the two acts is performed on the basis of price thresholds for the amount of the public goods and services. The Act essentially points the access over which it has a mandatory application. As for the public procurement whose amount is below these access or thresholds (i.e. “small public procurement”), the Ordinance shall be applied thereof.

The information connected to the award of public procurement shall be entered into the Public Procurement Register in its own right, established and kept at the Minister of Finance. All principals shall be obliged to send complete information on the public procurement for entry into the Register.

The holding of a public procurement procedure, as laid down by the Public Procurement Act, shall be characterized with the following basic statements:

(a) The subject matter of public procurement is listed comprehensively and is grouped into three basic subject groups, namely:

1. works;
2. Supplies of goods;

3. Service-provisions;

(b) The main entities under the public procurement contracts shall be Principal and Contractor. The Principals of public procurements are listed in detail in the Act – these shall be entities closely related to the spending of public funds or provision of services of wide public interest. Such entities shall be public authorities, municipality mayors, higher schools, health insurance and pension funds, commercial exploitation companies and state enterprises, and so on.

(c) The contractors of public procurement shall be prospective contractors who have negotiated a public procurement contract and who have been registered as traders within the meaning of the Commerce Act or has been engaged in a liberal profession;

(d) The Act prescribes three types of procedures concerning the award of public procurement contract:

- Open award procedure - the principal shall submit an open invitation to all prospective contractors who may be interested to submit their proposals;
- Closed award procedure - proposals may be only submitted by such prospective contractors who, after a pre-qualification selection, have been invited in writing by the principal;

(e) Negotiation procedure – the principal shall conduct negotiations with one or several selected prospective contractors.

(f) The activities and acts connected to offence in the public procurement procedure are subject to appeal by every one of the prospective contractors, who have taken part in the procedure;
(g) Review concerning the application of this Law shall be exercised by the National Audit Office and by the authorities of the State Internal Financial Control Agency.

FIVE IMPORTANT ELEMENTS IN SUPPLYING

To supply the goods, services and works, there are some elements which should be taken into account. This element must be followed in order to make sure the smooth and clear process of supplying. It is also important because it will affect the public procurement process. Essentially, the elements in supplying can be divided into five:

1. One of the elements to be taken into consideration is that the goods or services must not be of danger (dangerous item). For examples, flammable, radioactive and poisonous goods, and so on, are examples of items which cannot be supply to the public.

2. Another element in the process of supplying goods is proposed that the purchased must not be on behalf of the Council at the public auction. The goods that are proposed to be purchased on behalf of the council at a public auction can only be supply to the public during the auction process. The suppliers must obey this instruction in full.

3. Besides that, the goods proposed to be purchased are not of a specialist nature such as antiquities for museums and records office. These types of goods cannot be supplied to the public because it belongs to the government. So, public servants must be transparent and not involved in such malpractice and corruption.

4. In addition to that, goods and services supplied to the public should also be of legal in nature. As such, illegal and dangerous goods and services, cannot be supplied to the public.

5. Lastly, the goods supplied must also be of unbreakable goods in nature. For example goods such as glass, fragile goods, and so on, are highly discouraged to be supplied to the public.

CONCLUSIONS

As a conclusion, Public procurement in the public sector is enforced by the Public Procurement Act and Treasury Order. As such, public servants should adhere strictly to the rules and procedures as outlined by these acts. Failure to do so will result in the violation of the purchasing and supplying procedures (public procurement), and exposed the mentioned officers to public inquiry, disciplinary charges, and prosecutions.

Essentially, Public procurement defined the costs, expenditure, policies and procedures to be followed. And by introducing the tender to the public, the costs of the project can be reduced, and this will eventually helps the government in carry out other important projects with the extra budget. The saving of costs also gives advantages to the government to resolve its monetary problem.

Conclusively, public procurement process are necessary and practiced by governments of many countries, as a means to reduce deficit spending, improve on efficiency, and effectiveness, and encourage healthy or positive economic development and growth.

REFERENCES

Books:


Internet:

INTRODUCTION

Public Accountability of the public sector involves essentially all departments and ministries of the government. It is guided by – the Federal Constitution (Articles 106 & 107), Financial Procedure Act 1957, and the Audit Department.

IMPORTANCE OF PUBLIC ACCOUNTABILITY

1. To make sure that every cents and dollars are being accounted for (recorded).
2. To make sure that every expenditure benefits the public (or people) at large.

3. To make sure that every expenditure fulfill the overall objectives and development of the country (nation).
4. To avoid wastage and over spending.
5. To avoid corruption and mismanagement.

PROCESS OF PUBLIC ACCOUNTABILITY
CONTROL MANAGEMENT, WORK ETHICS, & ACCOUNTABILITY MANAGEMENT

Control Management:

1. To make sure officers follow the guidelines, rules and regulations of Financial Procedure Act 1957.
2. To control the revenues & expenditures of public resources.
3. To “check & Balance” public account.
4. To coordinate the objectives of the organization with the overall objectives and goals of Malaysia.

Work Ethics:

1. Work ethics is a set of moral principles, which public servants should follow.
2. It essentially define the parameter and boundary of what public servant “can and cannot do.”
3. The work ethics of the public servants in Malaysia is formulated by the JPA (Public Service Department) and INTAN.
Accountability Management:

1. Public accountability is more than just following rules and regulations. It also means to be “responsible.”

2. Public accountability also means being “honest” of one’s conduct in Public Finance Administration. That is, not using the position for one’s personal gains.

3. Furthermore, public accountability also means being “accurate” in keeping and updating public account.

4. Public accountability also means being “discipline.” Being discipline means to be able to resist temptation of involving oneself in business activity concurrently with one’s responsibility as public servant. Being discipline also means having good manners and proper behavior.

5. Thus, Accountability Management essentially means being accountable (responsible) to – oneself, superior and the public.

AUDITING

Auditing basically refers to “the examination and verifying of accounts of an organization, so as to ensure that it compliance with the prescribed procedures.”

However, in reality, an auditor usually not only ensure that the relevant government organization adhere to the prescribed procedures, but also to considerations such as – cost-benefits, performance and the achievement of goals, to corruption free practices.

Thus, auditing can be divided into two types:

1. Financial Auditing
2. Performance Auditing

Financial auditing refers to the auditing that requires the organization (or departments) to adhere to the correct format of accounting and recording, the account is properly balanced, and all financial transactions are being recorded accordingly.

Performance Auditing refers to Financial Auditing, plus, other considerations such as, efficiency and effectiveness of the account (or funds) in meeting the goals and objectives of the organization, of the performance of the allocated funds, to economy accomplishment, and so on.

This section of the book has been compiled by the author from various sources:

**AUDIT ACT 1957**

**Short Title**

(a) This Act may be cited as the Audit Act 1957.

(b) - (c) (Omitted)

(b) This Act shall apply to the audit of the accounts of the Federation, of the States and of such other public authorities and specified bodies as are subject to audit by the Auditor General.

**Interpretation**

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The National Audit Department of Malaysia (2002). [www.yahoo.com](http://www.yahoo.com)
(i) Words and expressions use in this Act shall, unless the context otherwise requires or it is here in otherwise expressly provided, have the meaning assigned to them in the Financial Procedure Act 1957.

(ii) Notwithstanding section 1 (2), in its application to this Act, the expression "public moneys" shall include moneys received by or on account of any public authority established under Federal or State law and the expression "public stores" shall include chattels the property of or in the possession or under the control of any such authority.

Terms and Condition Services of Auditor General

The Auditor General (otherwise known as "Ketua Audit Negara") shall be deemed to be an officer of the general public service of the Federation and, save as is otherwise provided in the Federal Constitution and under this Act, the law for the time being in force relating to the public service of the Federation and to members thereof shall apply to him.

Remuneration of Auditor General

(i) The remuneration of the Auditor General shall be as specified under the First and Second Schedules.

(ii) The expression "remuneration" in this Act shall have the meaning assigned to that expression in Clause (2) of Article 160 of the Federal Constitution.

(iii) All payments made under the First and Second Schedules shall be charged on the Consolidated Fund.

Duties of Auditor General

The Auditor General shall in such manner as he may deem fit examine, enquire into and audit;
a) The accounts of accounting officers of the Federation and of the States

b) The accounts of any separate fund established in a state or the federal territory under Article 97 (3) of the Federal Constitution notwithstanding any law to the contrary

c) The accounts of any other public authority or body if it is so provided by law in any case; and, where it is not so provided, at the request of that authority or body and with the consent of the Minister of finance to be notified in the Gazette;

d) The accounts of any other body, including a company registered under the Companies Act 1965, in receipt of a grant or loan from the Federation or a State, and including also a company where more than half its paid-up share capital is held by the Federation, a State or a public authority or is so held in the aggregate by two or more of them: "Provided that the Yang di Pertuan Agong so specifies by order under Article 106 (2) of the Federal Constitution and notwithstanding any law relating to the audit of the accounts of any such body";

e) (Deleted by Act A558)

f) The accounts of any other public authority if the public interest requires that the accounts of the authority shall be examined, inquired into and audited by the Auditor General notwithstanding any law relating to the accounts and audit of any such authority: "Provided that the Minister shall not cause the accounts of any such authority exercising powers vested in it by State law to be so examined, inquired into and audited unless he shall first have consulted the Menteri Besar or Chief Min

Nature of Audit

The Auditor General shall in his audit make such examination as he may deem necessary to ascertain
a) whether all reasonable precautions have been taken to safeguard the collection and custody of public moneys or other moneys subject to his audit;

b) whether issues and payments of moneys subject to his audit were made in accordance with proper authority and payments were properly chargeable and are supported by sufficient vouchers or proof of payment;

c) whether due care has been taken to account for and to ensure proper use, control, maintenance and disposal of all public stores or other stores subject to his audit;

d) Whether all accounts and other records have been and are properly and faithfully maintained;

e) whether in his opinion moneys have been applied to the purposes for which they were appropriated or authorized and the activities related to such purposes were carried out or managed in an efficient manner with due regard for economy and the avoidance of waste or extravagance; and

f) Whether the provisions of the Federal Constitution and of the Financial Procedure Act 1957, and any other written law relating to moneys or stores subject to his audit have been in all respects complied with.

**Powers of Auditor**

In the performance of his functions under the Federal Constitution or this Act the Auditor General:

a) may call upon any person for any explanations and information which the Auditor General may require in order to enable him to discharge his duties;
b) may, without payment of any fee, cause search to be made in and extracts to be taken from any book, document or record in any public office;

c) shall have access to all records, books, vouchers, documents, cash, stamps, securities, stores or other property subject to his audit;

d) may examine upon oath or affirmation (which oath or affirmation the Auditor General is hereby empowered to administer) any person whom he may think fit to examine respecting all matters and things whatever necessary for the due performance of his functions;

e) may authorize any public offer on his behalf to conduct any inquiry, examination or audit and to report there on to him; and

f) may obtain the advice of a law officer upon any question of law.

(ii) Any of the powers conferred by this section upon the Auditor General may be exercised by a public officer authorized by the Auditor General in writing to exercise the power on his behalf.

(iii) The Auditor General may authorize any person he deems competent to conduct on his behalf and under his direction any inquiry, examination or audit and to report his findings thereof to him and for that purpose may make arrangement for the payment of any fee with the agreement of the Treasury and the parties concerned and any of the powers conferred by subsection (1) (a), (b), (c) and (d) upon the Auditor General may be exercised by such person if he is authorized by the Auditor General in writing to exercise the power on his behalf.

(iv) Every person called upon for any explanations or information pursuant to subsection (1) (a) and (d) shall be legally bound to furnish such explanations or information, as the case may be.

Secrecy

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(i) The operation of section 7 shall not be limited by any provision (including a provision relating to secrecy) contained in any other law except to the extent to which any such other law expressly excludes the operation of that section.

(ii) Notwithstanding anything contained in any other law and notwithstanding the making of an oath or declaration of secrecy a person shall not be guilty of an offence by reason of anything done by him for the purposes of section 7.

(iii) Neither the Auditor General nor any other person shall divulge or communicate, except in the course of duty to another person performing duties under this Act, any information which has come to his knowledge directly or indirectly in accordance with section 7 in any case in which the person from whom the information has been obtained or from whose custody accounts, books, documents or papers from which the information was derived were produced could not, but for this Act, lawfully have divulged that information to the Auditor General or that other person.

(iv) Subsection (3) shall not prevent the making, divulging or communicating in any report of the Auditor General of conclusions, observations or recommendations which are based on information obtained in accordance with section 7.

Audit Reports

(i) The Minister or the Menteri Besar or Chief Minister of a State as the case may be shall, as soon as a statement required under section 16 of the Financial Procedure Act 1957, has been prepared, transmit the statement to the Auditor General who shall forthwith cause the statement to be examined and audited and prepare his report thereon.

(ii) In the event of any such statement not being received within a period of seven months after the close of the financial year to which it relates, the
Auditor General shall submit a report to that effect to the Yang di-Pertuan Agong who shall cause it to be laid before the Dewan Rakyat at its next meeting, and in the case of a report relating to a statement due from the Menteri Besar or Chief Minister of a State, the Auditor General shall, before submitting the report to the Yang di-Pertuan Agong, submit a copy thereof to the Ruler or Yang di-Pertua Negeri of that State who shall cause it to be laid before the Legislative Assembly at its next meeting.

(iii) A copy of every report relating to the accounts of the Federation prepared in accordance with subsection (1) shall be transmitted by the Auditor General to the Minister who, if the Dewan Rakyat be not then sitting, shall cause the statement and report to be published.

(iv) If at any time it appears to the Auditor General that any serious irregularities have occurred in the accounting or custody of public moneys or public stores under his audit, he shall immediately bring the matter to the notice of the Secretary General to the Treasury and, in the case of moneys or stores of a State or a public authority, to the notice also of the State financial authority or the head of that public authority, as the case may be.

(v) The Auditor General may in any report submitted in accordance with Article 107 (1) of the Federal Constitution or otherwise make recommendations and may generally comment upon all matters relating to public accounts, public moneys and stores.

(vi) The Auditor General shall submit a certificate and observations on the accounts of any separate fund established in the Federal Territory or a State under Article 97 (3) of the Federal Constitution to the Yang di-Pertuan Agong in the case of Federal Territory or to the Ruler or Yang di-Pertua Negeri of the State or to such other authority as may be provided by Federal or State law.

(x) Unless it is otherwise required by law or by direction of the Minister, where the Auditor General audits the accounts of any other authority or body he shall present his certificate and observations upon those accounts to the head of that authority or body and a copy thereof to the Minister or Menteri.
Besar or Chief Minister responsible for that authority or body, and the Auditor General may, at any time before presenting such certificate and observation, bring to the notice of the head of the authority or body or the Minister or Menteri Besar or Chief Minister responsible for that authority or body any matter which in his opinion requires immediate attention.

(xi) Notwithstanding the provisions of this section, the Auditor General may at any time submit a report to the Yang di-Pertuan Agong upon any matters arising out of the performance of any of his duties or the exercise of any of his powers under this Act or under any written law, and may submit a copy of any such report to the Ruler or Yang di-Pertua Negeri of a State or to a Minister.

Regulations

(i) The Minister may, after consulting the National Finance Council, make such regulations not inconsistent with this Act as are necessary for the purposes of the Act.

(ii) All regulations made under this section shall be laid before the Dewan Rakyat at the next meeting after their making.

Power to Amend Schedule

The Yang di-Pertuan Agong may by order published in the Gazette amend the provisions of the Schedules.

Also refer to FINANCIAL PROVISION ACT (Chapter One: General);

105. Auditor General

(1) There shall be an Auditor General, who shall be appointed by the Yang di-Pertuan Agong on the advice of the Prime Minister and after consultation with the Conference of Rulers.
(2) A person who has held the office of Auditor General shall be eligible for any other appointment in the service of the Federation or for any appointment in the service of a State.

(3) The Auditor General may at any time resign his office but shall not be removed from office except on the like grounds and in the like manner as a judge of the Federal Court.

(4) Parliament shall by law provide for the remuneration of the Auditor General, and the remuneration so provided shall be charged on the Consolidated Fund.

(5) The remuneration and other terms of office (including pension rights) of the Auditor General shall not be altered to his disadvantage after his appointment.

Subject to the provisions of this Article, the terms and conditions of service of the Auditor General shall be determined by federal law and, subject to the provisions of federal law, by the Yang di-Pertuan Agong.

106. Powers and duties of Auditor General

(1) The accounts of the Federation and of the States shall be audited and reported on by the Auditor General.

(2) The Auditor General shall perform such other duties and exercise such powers in relation to the accounts of the Federation and of the States and to the accounts of other public authorities and of those bodies which are specified by order made by the Yang di-Pertuan Agong, as may be provided by federal law.

107. Reports of Auditor General

(1) The Auditor General shall submit his reports to the Yang di-Pertuan Agong, who shall cause them to be laid before the House of Representatives.

(2) A copy of any such report relating to the accounts of a State, or to the accounts of any public authority exercising powers conferred
by State law, shall be submitted to the Ruler or YDP Negeri of that state, who shall cause it to be laid before the Legislative Assembly.

PUBLIC ACCOUNTABILITY (ISLAMIC PERSPECTIVE)

In Islam, public accountability of public servants (government workers) are central to three beings (three parties);

- God / Allah
- Superior / Boss / Head Department
- Society / Ummah

Thus, in every aspect of work, a Muslim administrator should realize that God is constantly watching over his deeds. Therefore, he should do his work sincerely, and try to fulfill his work (responsibility) as given to him – with amanah (trust).

There are many Quranic verses and Hadiths explaining on the importance of amanah (trust) and responsibility.

“Oh those who believe, truly God has ordain you to render your trust to those that deserve.”

“We have render the trust to the heaven, earth, and mountain. But they refuse to undertake it. However, man undertook it, surely he must be foolish.” (33:72)
Furthermore, in Islam, Public Accountability of public resources (revenues & expenditures) means that a Muslim should be aware of what he earn and spend.

Thus, all haram (illegal) transactions, such as, riba or interest base transaction, producing and selling of wine, alcoholic drinks, swain (khinzir), and so on, are deem illegal from the Islamic perspective.

“God has allow you legal trading, and prohibit you riba transactions.”

CONCLUSION

As a conclusion, the Islamic framework of accountability and responsibility is firstly to Allah swt., because He is the creator of all things, creator of man on earth, and the master of the universe. As such, a good Muslim should always be caution of his deeds, because God is always watching over him. Thus, a good worker will not committed bribery or wrongdoing at work. Furthermore, he is also responsible and accountable to his boss, society and ummah at large.

REFERENCES

Books:

11. ISSUES & PROBLEMS IN FINANCIAL ADMINISTRATION

INTRODUCTION

Essentially the issues and problems in financial administration can be discussed in two aspects;

1. Issues in Financial administration
2. Problems in Financial administration
1. ISSUES IN FINANCIAL ADMINISTRATION

1.1. Inflation in Public Expenditure

Inflation in public expenditure is the result of poor management. It is the result of overspending on the part of the government on various goods and services.

Inflation happens when the price of goods and services in the market is high and increase drastically.

Thus, the government must be extra careful in their expenditure, and also must be able to forecast the future market. This is important to avoid overspending of public resources, and to avoid inflation.

Furthermore, inflation in the market also happens, as a result of natural phenomena over-time. For example, we can buy a packet of nasi lemak in the 60s for 5 cents, but today a packet of nasi lemak would cost 80 cents.

Thus, ignoring the inflation factors would cause many valuable development projects of the government to come to a halt and even failure.

1.2. Shortfall in Public Expenditure

Shortfall in public expenditure can also be a problem. Essentially shortfall in public expenditure means that the various governmental organizations are spending less than required.

Shortfall in public expenditure by certain governmental departments can give a wrong interpretation to the Central government. That is, by telling the Central government (Federal government) that they need lesser budget than required - which may not be the case.

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The current inflation rate in Asia, such as Malaysia, Singapore, Thailand, and so on are said to be between 9 to 15 percents per annum.
Shortfall in public expenditure is the result of;

1. Poor planning
2. Poor execution of development projects
3. Excessive red-tapism

One way to overcome shortfall in public expenditure is to have good planning and execution of development projects, and the reduction of excessive red-tapism. This can be achieved by recruiting appropriate professional and experts, such as engineers, accountants, architects, CEO and so on.

1.3. Issues of Budgeting System

Currently the budgeting system in Malaysia is separated into two;

a. Maintenance Budget
b. Development Budget

The Maintenance Budget is the budget allocated for maintaining the various governmental organizations, such as the cost for maintaining the buildings and also salaries for all public servants. Such as, the salary for ministers, judges, policemen, soldiers, administrators and so on.

In Malaysia, the application for the Maintenance Budget should be forwarded to the Treasury Board (Perbendaharaan Malaysia) for approval.

In contrary, the Development Budget of the government must get approval from;

a. The Parliament
For example, the building of Putrajaya, Cyberjaya, KLIA, KL Tower, KLCC, and so on.

b. EPU (Economic Planning Unit).
For example, the building of schools, roads, new governmental building, and so forth.

1.4. Issues on Cash Flows

The Issues of Cash Flows can also be a hindrance to development in financial administration. Essentially, the issues of Cash Flows according to the Treasury Board circular (Bil.5) 1981, stated as follows;

“That each officer should ensure that the monthly expenditure is at its average, so that at any one time, it will not exceed its average.”

The introduction of Average Cash Flows is necessary so as to assist the government in their budget estimation and forecast for the future public expenditure.

This essentially means that financial administrators should not at any one time spend more than the average allocation for that month (or year).

For example, the Local Government is allocated 12 millions for the fiscal year 2000. Thus, accordingly they should spend only one million per month on average. Hence, any expenditure that cost more than one million is highly discouraged.

This can be a problem because public expenditure is volatile. Thus, one can spend 3 millions a month, and less than one million on another month.

2. PROBLEMS IN FINANCIAL ADMINISTRATION

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Refer to the Surat Pekeliling Perbendaharaan Malaysia (Bil.5) 1981.

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2.1. Lack of Resources

Resources are limited in economic term (also known as scarcity). Examples of resources - land, labor, capital, & entrepreneur. Thus, because of that, public administrators are told to plan carefully in their budget and expenditure. Lack of resources are due to;

a. Natural phenomena
For example, resources such as, land, labor, capital, and entrepreneurs, are always limited naturally in this world.

b. Due to inflation
Prolong and excessive inflation can also cause lack of resources, as the local currency will devalue in economic term.

As such, the government could not afford to finance many development projects, both in the rural or urban areas. Only feasible and important projects for poverty eradication and social economic restructuring are the prime focus of the government.

2.2. Outflow of Resources

The Outflow of Resources can also be of major problem to the country. Outflow of Resources happens due to excessive outflows of local currency overseas. This phenomenon happens due to;

a. Excessive overseas expenditures by locals.
b. Excessive import of foreign goods by the private sectors.
c. Excessive import (Import deficit) of foreign goods by the public sectors.

d. And export of local goods, less than, import of foreign goods, (means than Import > Export).

As such, feasible strategy on the ‘Balance of Trade’, that is, to maintain a balance between import and export of goods and services is crucial. More so, the control of excessive imports of foreign goods and less export of local goods should be avoided.

### 2.3. Problems of Tax Evasion (Tax Avoidance)

Annually, the government face major problems in collecting taxes from the people. This is due to some individuals who try to avoid from paying taxes (also known as tax evasion).

Tax evasion by some individuals and private companies can cause the government millions (of ringgit) in loss annually.

Among the common taxes are – Business tax, Corporate tax, Personal income tax, Custom duties, Summons, fines, etc.

### 2.4. Increase in Public Debts (Deficit Debts)

Under the Malaysia Federal Constitution, the State Government can only borrow from the Central Government (Federal Government) if the needs arise.

Thus, the constant borrowing (or loan) by the State Government, for examples, Kelantan, Perlis, Negeri Sembilan, Sabah, and Sarawak, can result in billions of Federal Government deficit debts.

### 2.5. Ill-Management

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Ill-management essentially means that the workers are performing below average (or perform weaker than they suppose to be). Ill-management is the result of low qualifications, inexperience, and lack of skills.

Thus, to overcome ill-management, the HR manager needs to recruit qualified personnel (professionals and skilled workers) into their organization.

Besides that, ill-management is also due to “lack of information.” For example, some governmental organizations refuse to share information with other departments. This can result in slow, delay, and inefficient administration.

2.6. Mis-management

Mismanagement refers to misconduct or wrongdoing, and can lead to “corruption.” (dishonesty & bribery) if not tackle at the early stage.

Mismanagement happens due to lack of supervision from the head of department and / or higher authority.

To overcome mismanagement, the authority needs to have a clear-cut outline of procedures, clear rules and regulations, and clear laws pertaining to public administration.

Besides that, a higher salary (or increase in salary) would boost the spirit of the workers, and to avoid (or lessen) mismanagement in the organization.

CONCLUSION

There are many issues and problems in financial administration. Such as, the issues of inflation in the public sector, shortfall in public expenditure, issues of public budgeting system, issues of cash flows, to problems of lack of
resources of public sectors, outflow of resources, problem of tax evasion, ill-management, mismanagement, and so on.

All in all, the government needs to overcome these issues and problems, efficiently and effectively - with prudential planning, management, execution, evaluation, and forecasting.

The future of public finance administration holds many challenges and problems, and at the same time, it also holds many prospects and promise for the future.

REFERENCES


