



FINAL EXAMINATION
MARCH 2024

COURSE TITLE	PUBLIC SECTOR ACCOUNTING
COURSE CODE	AACT4413
DATE/DAY	24 JUNE 2024 / MONDAY
TIME/DURATION	09:00 AM - 12:00 PM / 03 Hour(s) 00 Minute(s)

INSTRUCTIONS TO CANDIDATES :

1. Please read the instruction under each section carefully.
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3. Students who are caught breaching the Examination Rules and Regulation will be charged with an academic dishonesty and if found guilty of the offence, the maximum penalty is expulsion from the University.

(This Question Paper consists of 7 Printed Pages including front page)

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This question paper consists of FOUR (4) questions. Answer ALL questions in the answer booklet.

[100 MARKS]

QUESTION 1

(40 Marks)

This newspaper article is adapted from newsportal freemalaysiatoday.com.my

“Budget 2024 needs to revisit state allocations.”

October 13, 2023

KUALA LUMPUR, — Economists have lauded the federal government’s 2024 budget for being expansionary while being fiscally responsible at the same time. “The budget is an expansionary budget albeit a cautious one. This was indicated by the narrowing of the fiscal gap from 5% of gross domestic product (GDP) in 2023 to 4.3% of GDP in 2024,” said Afzanizam Rashid, chief economist at Bank Muamalat Malaysia Bhd. The 2024 budget was tabled earlier today by Prime Minister Anwar Ibrahim at the Dewan Rakyat with a total allocation of RM393.8 billion, a 1.5% increase from last year’s RM388 billion. Of this, 77% or RM303.6 billion was allocated for operational expenditure with RM90.1 billion for development expenditure. The budget has proposed some changes to the taxation system to help the government reduce its fiscal deficit – raising the service tax rate from 6% to 8%, a 10% capital gains tax (CGT) for unlisted companies, and a 5%-10% tax on luxury goods

Malaysia’s budget historically mirrors the centralisation of government authority at the federal level. In 2021, the actual allocation to state governments amounted to a mere 2.4% of the total government expenditure in Malaysia. Even with such a small pie, the distribution of funds to state governments is largely uneven. States that are among the highest economic contributors consistently receive a lower proportion of federal funding year after year.

Notably, Selangor, Johor, and Penang emerged as the three largest contributors to Malaysia’s GDP in 2021, collectively generating RM574 billion, or 63% of the national GDP. However, their cumulative federal allocation amounts to just RM2 billion, or 38% of the funds disbursed to states. Selangor faces the greatest loss – even when contributing to almost one-third of Malaysia’s GDP at RM344 billion, it only gets back RM836 million in state allocation, or 0.2% of the GDP contribution, and one-tenth of the federal disbursement to states. Johor and Penang, the second and third-largest contributors to Malaysia’s economy, also received less, in proportion, from the federal government. On the other hand, traditionally less-developed and low growth states such as Kelantan, Terengganu, and Perak, benefitted the most. Despite jointly contributing only around 12% of the country’s GDP, they received 20% back from the federal government.

Closing the development gap?

The allocation gap is justified with the argument that we need to levelise economic development across Malaysia, so that we close the gap between top-performing states like Selangor and Penang, with that of Kelantan and Terengganu. As a result, the federal government’s state allocation budget is always skewed towards the less-developed states.

But is it true that the development gap has been closing? States like Selangor and Penang had the highest economic growth rate in history, at an average of 6.19% and 5.87%, respectively, from 2011 to 2021. The less developed states appear to also grow at a much slower rate compared to the rest of the country. It seems that the unequal state allocation does not help these low economy, low growth states to reach the development of the more productive ones.

In fact, the small and unequal allocation concentrated power largely in the federal government – states usually could not craft policies that are more relevant in the context of their respective local conditions. Instead, they have to follow a standard, centralised approach, which might work in favour or against their development goals.

For instance, policies related to healthcare and education are centrally determined, but the number and type of schools, and the unique needs of the local community, were not taken into account – as long as the federal government determines that the policy works the best nationwide. But centrally run organisations are often mired in inefficiencies due to a lack of oversight by central committees, who are either too preoccupied or too ignorant to respond to local plights.

Unjust policy dilemma

Besides that, states often have to grapple with low funding to effectively run their government. Penang is expected to rake in a RM467.12 million deficit in 2023 due to its revenue-expenditure gap amid low allocation from the federal government. Penang also owed a total of RM41.11 million to the federal government in 2022, which is atrocious considering that the central government has been benefitting from the economic gains from the state.

The unfair disbursement to the states is entirely unjust and does not serve the intended purpose of closing developmental divides between states. The hardworking and efficient states of Selangor and Penang essentially subsidised the federal government's spending as well as the less efficient states. This is completely unjust to the taxpayers in the more developed states, since it means that they get less welfare and infrastructure gain.

More importantly, the entire situation holds the state governments less accountable to good governance. Political leaders in less developed states have no interest in elevating economic growth but perform populist and politically favourable policies to ensure they remain electable in the next election. The development divide between states continues to grow, since the more productive states produce more over the years, and the less developed states continue the loop of inefficiency and lack of desire for growth. This creates a dependency and moral hazard system, where the state government can often point fingers at the federal government for a lack of funding and good policy, instead of taking up the tasks itself.

Linking federal funding to progress

We need to tie federal-state funding to state development, in particular the real GDP. This means that if the state contributes 10% to the country's GDP, they get back 10% of total state allocation from the federal government. This also mitigates the need to adjust for land size or population, since it is expected that states with more lands or population will produce more than the smaller states like Perlis. The economic size itself should also account for other nuances, such as the number of roads and public buildings in the state.

States with better economic development make more effective use of the allocation and are more likely to spend on high-growth sectors, benefitting not only the state but the whole of Malaysia. We need to move away from the mindset of focusing on redistributing from our small economic pie. Instead, we should think about how to grow that pie so that we can benefit more as a nation in the long run. Giving money to states to run themselves more effectively is one of the most effective ways to enlarge that pie, which essentially benefits not only the more developed states, but also the least developed ones. A smaller slice from a big economy is still larger than a bigger slice from a small economy.

Another important fact is that the rethinking of state funding essentially removes the culture of dependency on subsidies, which have traditionally hampered motivation for states to partake in economic development. Doing so will incentivise all states to work towards economic development, even in the least developed states, since that's the only channel they can use to increase the local budget.

Eventually, voters are more likely to vote for a competent government, rather than a government based on sentiments and populism. In the case where voters choose incompetent governments at the state level, they should be given what they chose, in the spirit of democracy and justice. It is unfair to states that elect effective governments to subsidise states that don't.

Required:

- a) Explain the benefits of the budget to the country. (4 marks)
- b) There are several stages in the budget preparation/formulation process, both at Federal and Agency level. Explain briefly the various stages of the process for Budgeting at the Federal Government's level. (8 marks)
- c) Discuss any **TWO (2)** approaches to public budgeting. (8 marks)
- d) Based on the article above, explain what you understand by the terms;
- i) expansionary budget
 - ii) budget deficit
 - iii) fiscal policy
 - iv) operational expenditure
 - v) development expenditure
- (10 marks)
- e) Based on the article above, discuss how federal government can use the budget to reduce the gap between rich and poor states in Malaysia and balance such allocation fairly and equitably. (10 marks)

QUESTION 2

(15 Marks)

The following are the transactions for Object 30,000, Vote 07, Responsibility Centre 040404 and Programme 010934. The following are the balances as at January 1, 2024:

	RM
Balance to date	100,000
Net expenditure	70,000
Outstanding liability	60,000

2024

January 2: Received allocation warrant from Director General amounted to RM250,000.

4: Issued local order No 007 to EX Enterprise for supply of furniture. The amount is RM25,000.

7: Received notice to reduce allocation of RM50,000 from Director General.

8: Prepared payment voucher, No BP009 to Mira Sdn Bhd being maintenance of office equipment for the month of January amounted to RM10,000. The contract was signed last month.

12: Prepared payment voucher, No BP017 amounted to RM5,900 for the recoupment of petty cash for Ipoh branch.

15: Received bill No A008 from EX Enterprise for local order No 007. Issued payment voucher, No BP300 of RM25,000.

20: Made collection for personal telephone charges (expenditure code 28199), amounted to RM1,200.

23: Issued transfer allocation warrant No VO1/09 to Object Code 21,000. The amount is RM11,000.

28: Issued payment voucher No1105 for payment of outstanding liability RM2,000.

30: Issued indent IDN 03/XX to Syarikat Ali for repairs works amounted to RM2,000

Required:

Prepare Vote book for the month of January 2024.

QUESTION 3

(25 Marks)

Accountability is one of the elements of good governance in the public sector. Malaysia has implemented and instituted various public sector reforms programs over the years, specifically those related to enhancing performance and accountability. The consequences of these programs have brought along attitudinal changes towards the private sector and the public at large. Similar to the private sector, civil servants are supposed to think and treat the citizens as customers of their services. Regardless of all reformations and improvements, the civil service in Malaysia still continues to suffer from inefficiency, corruption and many other problems.

Required:

- a) Discuss the chain of accountability process in Malaysia. (5 marks)
- b) Discuss the reasons why accountability is very important in the public sector. (5 marks)
- c) Discuss the types of accountabilities in the public sector. (10 marks)
- d) In your opinion, why accountability issues such governance, corruption, lack of public transparency and abuse of power are still a major issue in this country. (5 marks)

QUESTION 4

(20 Marks)

Auditors play a key role in contributing to the credibility of the financial statements on which they are reporting. High quality audits support financial stability. The responsibility for performing quality audits of financial statements rests with the auditors. Conventionally, public sector auditing is primarily concerned with legality, reliability and integrity of government expenditure. Over the years, the audit function has expanded to include monitoring government programs and activities by paying attention to accountability, output, efficiency and value for money.

Required:

- a) State the government body that is responsible to safeguard the conduct of public sector auditing in Malaysia and explain its objectives, roles and responsibilities. (9 marks)
- b) Explain the powers and secrecy matters of Auditor General as enshrined in Audit Act 1957. (6 marks)
- c) In your opinion, what are the challenges face by auditors in public sector organisation. (5 marks)

***** END OF QUESTION PAPER*****


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