



## Performance Reporting Practices of Public Universities In Malaysia

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### ABSTRACT

*The implementation of performance measurement is one of the efforts done by the public organisations to broaden their accountability. Performance measurement is a tool in guiding an organisation to achieve its aims and goals. The performance of any organisation mainly could be seen in the annual reports produced. The public organisations have different aims, objectives and functions, thus, reports prepared are different from those in the private sector. Their financial statements especially are likely to be fundamentally different. This preliminary study focuses on public universities in Malaysia. The main objective is to investigate the financial performance practices of the public universities in Malaysia. Obviously, the performance reporting practices of Malaysian public universities is very poor. More actions and improvements need to be done in order to be more accountable to the stakeholders.*

**Keywords:** *Annual report, financial performance practices, performance measurement, public universities*

### Introduction

The public sector has long been subjected to criticisms for their accountability. Accounting is not only record keeping but it should fulfill the needs of their users. The implementation of performance measurement is one of the efforts done by the public organisations to enhance their accountability. It provides a useful managerial tool and has significant future potential, where it plays an important role in planning, controlling and decision-making process. The performance measurement system provides data on how effectively and efficiently public services are delivered. It is actually a tool in guiding an organisation to achieve its aims and goals. In Malaysia, the public sector performance measurement and reporting have been fuelled by the federal regulations.

The performance measurement is very much influenced by disclosure reporting practices of any organisation, which could be seen in the annual report. According to Hyndman and Anderson, (1998), performance information (which is also known as performance reporting) is necessary for the organisation to discharge of their accountability to the users. It serves as evidence which is being used to judge the performance of any organisation. The annual report, although not reporting on the overall accountability of public sector organisation, is generally considered as being a primary medium of accountability. It provides the means for public sector organisations to fully account for the activities and stewardship of the public resources under their control.

This study represents a preliminary study, analysing the disclosure reporting practices in the Malaysian public universities. The main objective of the study is to provide a basis to understand the performance reporting practices and accountability in the Malaysian public universities. With the limitation of the sample size of public universities for the period of 2005, this would render drawbacks on the study. However, we believed that this would serve the purpose of providing some directions for further research in the area.

## Literature Review

Performance reporting or performance information is being very much concerned in the public sector organisation. The implementation of performance measurement is one of the efforts done by the public sector under the new public management. Performance measurement is actually a tool in guiding an organisation to achieve its aims and goals. Many studies have discussed the usefulness of performance measurement implemented by the public organisations. For examples Brignall (1993) and Parry et al. (1994) found that the performance measurement has been used extensively in the public organisations.

Performance measurement is very much related with accountability. The notion of accountability is viewed as being related to the requirement to be answerable for one's conduct and responsibilities (Rutherford, 1983). Stewart (1984) suggests a ladder of accountability, which consists of policy accountability, programme accountability, performance, process accountability, and accountability for probity and legality.

Accountability has a major impact on public sectors. Over the past decade, concerns have been raised about the accountability of public organisations, particularly on the adequacy of current reporting. Accountability for the public sector is actually an outcome of the delegation of government authority to the public rather than merely reporting of government's activities publicly mentioned that accountability is an essential element. It is the duty of public officials to report their actions to the citizens and the rights of the citizens and the rights of the citizens to take actions against those officials, whose conduct is considered unsatisfactory by the citizens. The performance measurement is very much influenced by financial reporting.

There is a huge body of literature on the performance reporting or performance information in the public sector, which discusses on several main issues. The first issue is on the compliance. According Chandler and Cook (1986) the reliability of external reported performance information is an important issue to the publication of performance information. There should be more guidance relating to performance information issued to the public.

The second issue discussed under the performance reporting is on the performance information. Boyne and Law (1991) evaluate the information provided to the public in the annual reports published by Welsh District Councils. They analysed annual reports from all 37 Welsh Districts in each year from 1981/2 to 1988/9. However, they found that these annual reports are of poor quality performance.

The other issue discussed in the literature is on the role of annual report in discharging accountability to the users. Hyndman and Anderson (1998) discuss the importance of performance information in the discharge of accountability by agencies through the medium of the annual report. It presents a time-series empirical analysis of the performance information in four sets of agency annual reports. This empirical study found that there was a significant proportion of agencies reporting little or no information on efficiency and effectiveness and the various component parts of performance (i.e. inputs, outputs and results).

Furthermore, Hyndman and Anderson (1995) discuss on the performance reporting and the importance of performance information in the discharge of accountability by agencies through the medium of the annual report. They examine the role of performance information in the discharge of accountability by Agencies and discuss the contribution that performance reporting can make to the achievement of some of the objectives of the Next Steps Initiatives. The study analysed the annual reports from the first 57 Agencies which were published from the year 1992 to 1993. They found that there was significant proportion of Agencies reporting little or no information on efficiency and effectiveness and the various component parts of performance. However, they did not attempt to judge the appropriateness of particular measures or whether targets set were 'reasonable'. Moreover, this study indicates that the Agencies' annual reports contain significantly more performance information than annual reports from other not-for-profit organisations.

Steccolini (2004) studied on the actual role played by the local government annual report as a means of discharging accountability to potential users (stakeholders). An empirical analysis was conducted on a sample of Italian local governments in order to investigate the actual categories of users of the annual report, the degree of users' interest in the annual report as perceived by preparers, the actual use of 'term statements' or alternative means of communicating results to

users, and the amount and the mix of information disclosed in the annual reports. The results show that annual reports are seemingly used to discharge accountability to 'internal' users, even if it is not clear if they are actually read. At the same time, they have no significant role in communicating to external users.

The other aspects discussed by the prior study is on the disclosure. For example, Dixon, Coy and Tower (1991) revealed that the annual reports of New Zealand universities annual reports had improved substantially over the study period. They examined the annual report over the period from 1985 to 1989. They stated that the quality of a report depends on its timelines as well as its comprehensiveness.

## Research Methodology

The annual report will be used based on assumption that it is a main communication channel to distribute information to the interested parties or the stakeholders. It provides the means for government departments and agencies to fully account for the activities and stewardship of the public resources under their control (Dixon, Coy & Tower, 1991).

A number of research have noted the importance of the annual report as a vehicle for discharging accountability for example Boyne and Law (1991). It can be concluded that the annual report is considered to be an influential source as its wide coverage and availability, where it has an important role in communicating and shaping the reality of the organisations in the public mind.

In the case of performance reporting in the public sector organisation, the use of annual reports is consistent with a number of previous studies. The annual report, although not reporting on the overall accountability of public sector organisation, is generally considered as being a primary medium of accountability (Boyne & Law, 1991).

This paper focuses on the annual reports of public universities in Malaysia. In the year 2005, there were 9 public universities in Malaysia. A list of the universities had been summarised in the Table 1 below.

Table 1: List of Public Universities in Malaysia for the year 2005

No.	Public Universities
1	Universiti Kebangsaan Malaysia
2	Universiti Malaya
3	Universiti Teknologi Malaysia
4	Universiti Utara Malaysia
5	Universiti Putra Malaysia
6	Universiti Sains Malaysia
7	Universiti Teknologi MARA
8	Universiti Malaysia Sabah
9	Universiti Malaysia Sarawak

In analysing the disclosure practices of Malaysian public universities' annual reports, a disclosure index has been developed (refer to Table 2). A disclosure index in the study has been developed in order to evaluate the mandatory requirement as stated in the Federal Treasury Circulars No. 15 1994. It is a simple (unweighted) disclosure index, which is calculated by adding 0 when the item was absent and 1 when it was present. The score of each section is expressed as a percentage of their maximum possible amount. There were 8 sets of annual reports for the public universities in Malaysia used in this study. With the limitation of the sample size of public universities for the period of 2005, this would render drawbacks on the study. However, we believed that this would serve the purpose of providing some directions for further research in the area.

## Results and Discussion

The financial reporting practices are analysed in Table 2. The finding reveals the financial reporting practices in the annual report of Malaysian public universities are very poor and the preparation of the annual report does not comply with the mandatory requirement as stated in the Treasury Circular No. 15 1994. The performance of each items is discussed below.

Table 2: Performance Reporting Practices

Particulars	Score	
	YES %	NO %
<b>Corporate Information</b>		
Chairman and Deputy Chairman	100	-
Board of Directors	100	-
Investment Committee	13	87
Audit Committee	13	87
Senior Management Team	100	-
Company Secretary	-	100
Auditor	-	100
Registered Office	-	100
Organization Chart	75	25
<b>General Background</b>		
Parliament Act	38	62
Objective of Organization	63	37
Functions and mains activities	25	75
<b>Chairman Statement</b>		
Overall comment on the programmes, activities and projects on the organization includes subsidiaries	-	100
Achievements on the programmes, activities and projects includes the financial positions	-	100
Events for the organization	-	100
Corporate strategic and future prospect	-	100
Growth and development	-	100
Rewards to the staffs	-	100
<b>Report on Government Assistance Received</b>		
Grant	13	87
Loan	-	100
Guarantee	-	100
<b>Analysis on Financial Performance</b>		
Assets	25	75
Sources of Finance	38	62
Reserves	-	100
Long Term Liability (non current liability)	-	100
Sales / Income / Gross Profit	25	75
Net Profit / Net Loss	-	100
Investment	-	100

Continued (Table 2),

**Performance Report**

List of project undertaken (continue, start and completed during financial year, not completed)	25	75
List of new research and / or design	63	37
List of courses undertaken (existing, new)	75	25
Ratio of students intake and total graduate (according to program)	25	75
Problems in implementing the programmes, activities and projects.	-	100
Factors that causes performance result to be better or worst	-	100
Expenditure forecast, outcome and impact of the programmes, projects and activities.	-	100
Future plan (if any)	-	100

**Audited Financial Statements**

Auditor's Certificate	100	-
Auditor General Report (if any)	-	100
Income and Expenditure Account	100	-
Statement of Equity Changes	100	-
Statement of Cash Flow	100	-
Balance Sheet	100	-
Notes to the Accounts	100	-
Declaration Report of Financial Statement	100	-
Others Related Reports/Statements	0	100

**Others**

List of Branch	-	100
List of Main Assets	-	100
List of Events	50	50
Dates of Board Meetings	-	100
Attendance of Board of Directors	-	100

On the analysis of corporate information items, all of the eight universities provided the information related to Chairman and Deputy chairman report, boards of directors, senior management team and for organisation chart, only one university did not disclose their annual report. But, none of them provided the information on the investment and audit committee, company secretary, auditor and registered office. For general background information, most of the universities only report on information for the objective of organisation. Other information such as Parliament act, function and main activities of organisation, the percentage reported are only 38% and 28.6% respectively. Furthermore, none of the universities provided the information on the chairman statement or chairman report. However, all of the universities disclosed their Vice Chancellor (VC) report in their annual report. Since the VC report is not included in the mandatory requirement by the treasury circular, the authors did not do any analysis on the content of the information provided. The analysis of report on government assistance received reveals that only 13% provided the information stated in the mandatory requirement of Treasury Circular No.

15 1994. Other information was not reported in their annual report. This also happens in the analysis of the financial performance such as reserve, long term liabilities, net profit/loss, and investment. None of the universities provided that information in their annual report. In this part, the only information provided in the report is the information on source of finance, which is highly disclosed by several universities. Table 2 also reveals that a majority of the universities provided information on the courses undertaken in their places and also report on new research/design that being produced by their scholar. While information for project undertaken (continue, start, and completed) was rarely disclosed in the annual report. On the audited financial statement, all eight public universities provided all the information required by the treasury. It is shown that public universities were more aware of the financial matters when reporting their performance annually.

Table 3: Performance Reporting on Each Public Universities

No	University	Score	Index Score	Percentages
1	PUM 1	21	50	42%
2	PUM 2	18	50	36%
3	PUM 3	16	50	32%
4	PUM 4	16	50	32%
5	PUM 5	15	50	30%
6	PUM 6	14	50	28%
7	PUM 7	13	50	26%
8	PUM 8	12	50	24%

\*PUM = Public University Malaysia

Table 3 provides a summary of the performance reporting by each of the Malaysian public universities. From the table, it shows that all eight public universities only disclosed 50% of the information stated in the treasury mandatory requirement. The percentage of performance reporting of public universities in Malaysia falls between 24% - 42%. This shows that the reporting practices are very poor and the report is prepared just to meet the standard requirement by the government.

The public universities should focus more and be aware towards the requirement on the information in the annual report. Thus, it will enhance their accountability towards the government who fund their activities and also to other stakeholders. Information such as registered office, analysis of grant, loan and guarantee should be further addressed in their reports. In addition, performance report should not be left behind and it is not be less of important if compared to other information. Such analysis could help the government and also stakeholders to know the path of the universities. It will also help the public to know the universities very well and know their ways in managing public money. The public universities should note that by providing enough and appropriate information in their annual report it could benefit them more. Many things could be revealed by the annual report to their stakeholders, especially to the government as the main contributor of their activities. The universities also need to improve on their narrative report and not only focus on quantitative report.

## Conclusion

This paper aimed at evaluating the disclosure reporting practices of Malaysian public universities annual report. The evaluation is based on the mandatory requirement as reported in the Treasury circular 15 1994. It has been shown, the performance reporting practices of Malaysian public universities is very poor. More actions and improvements need to be done in order to be more accountable to the stakeholders. Although initiatives have been done by the government to improve the accountability of public organisations, their impacts so far have been modest.

Further research is therefore needed to assess the compliance of other agencies and public organisations' annual report. The public needs to know whether 1) the monitoring agency (National Audit Department) plays an effective role in communicating this information to groups such as public and politicians. 2) the public organisations use this type of document to engage in a dialogue with the public. 3) politicians value this information as a method of monitoring performance. Answers to these questions would provide comprehensive action taken by universities in their duties to discharge the disclosure information in the annual report.

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