

**FINANCIAL REPORTING OF NEGERI
SEMBILAN LOCAL AUTHORITIES:
AN EXPLORATORY STUDY ON
AUDIT REPORT**

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ABSTRACT

This study examines the audit certificates and financial statements of the Negeri Sembilan local authorities. The main aspects emphasized in the study are the types of report issued and audit incidents exist in the certificates. Eight local authorities were assessed for the period of nine year from 1989 to 1997.

Audit reports were classified into three types, that is Clean report (CR), Audit Qualification (AQ) and Comment Short of Audit Qualification (CSAQ). Based on the reports issued, the financial reporting of local authorities are of poor credibility. 69 CSAQ were issued with one AQ and two CR over the study period. Pertaining to the audit incidents there is variability in the pattern of the incidents. Some of the councils have many while some have very few of incidents. This may suggests that it is not impossible to totally eliminate audit incidents and get a clean report. Tampin District Council (MDT) has shown the worst performance of all local authorities with eight CSAQ and one AQ issued to them due to the embezzlement case. While, Seremban Municipal Council (MPS) has proved to other local authorities that it is not impossible to get a clean report from the Auditor General Office. This Council has shown the best performance with two clean reports. Even though they have the most total of audit incidents, but they manage' to reduce the number of incidents throughout the years to the minimal of two cases. Therefore it is important for local authorities to improve the credibility of the accounts by making lesser mistakes in order to obtain clean report every year.

Possible explanations for the present of numerous audit incidents are lack of accounting skills and insufficient qualified staffs in preparing the accounts. While incidents occurs under the 'Others' categorize illustrates the lack of commitment and seriousness in discharging responsibilities. Without a doubt, Negeri Sembilan local authorities should improve their financial reporting and accountability responsibilities to the public.

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TABLE OF CONTENTS

ABSTRACT.....	ii
ACKNOWLEDGEMENT.....	iii
LIST OF FIGURES.....	iv
LIST OF TABLES.....	v
LIST OF APPENDICES.....	vi
CHAPTER 1: RESEARCH SCOPE.....	1
1.1 INTRODUCTION.....	1
1.2 OBJECTIVES OF STUDY.....	2
1.3 RESEARCH QUESTIONS.....	3
1.4 THE DEVELOPMENT OF LOCAL AUTHORITIES IN NEGERI SEMBILAN.....	5
1.5 CHAPTER ORGANIZATION.....	11
CHAPTER 2: LITERATURE REVIEW.....	12
2.1 INTRODUCTION.....	12
2.2 CONCEPTUAL FRAMEWORK.....	12
2.3 FINANCIAL REPORTING IN MALAYSIA.....	15
2.4 RELEVANT LITERATURE ON AUDIT QUALIFICATIONS.....	22
2.4.1 STUDIES ON PRIVATE SECTOR.....	22
2.4.2 STUDIES ON PUBLIC SECTOR.....	29
2.5 CHAPTER SUMMARY.....	35

CHAPTER 1

RESEARCH SCOPE

1.1 INTRODUCTION

This study examines the types of audit report issued to the Negeri Sembilan local authorities by the Auditor General Office. Based on the audit report issued, this paper will assess the credibility of the financial reporting for the period of nine years using the descriptive approach.

Local authorities serve as an important mechanism to further the government policies. In addition they serve to facilitate the implementation of relevant strategies and programs of the federal and state government. In the context of country's development, administrative system of local government plays a vital role of planning, coordinating, and managing and controlling development process at the local level (Ibrahim and Nordin, 1984).

As the major service providers in the community and most of their activities involve public, they are accountable to the public on all aspects of their actions. Most of the resources used to pay for governmental operating activities are provided involuntarily through various taxes, therefore a need to assure accountability in administering those resources exist (Kidwell, 1999). For governmental units developing good financial administration system is critical to ensure funds are collected, allocated and distributed in efficient manner. Therefore, every local authority is required to prepare accounts of their activities to justify what has been done with the public funds. Public are interested enough to know how the local government spent their money.