

Dr. Zakiah

The Role of the Public Accounts Committee in Enhancing Government Accountability in Malaysia

Associate Professor Dr Zakiah Saleh and Dr Haslida Abu Hasan

Department of Accounting
Faculty of Business and Accountancy
University of Malaya

Abstract

This chapter provides an overview of the institutional framework of Malaysia's federal Public Accounts Committee (PAC), and the Committee's role in enhancing public sector accountability. The development of the PAC and its relationship to the government structure in Malaysia are discussed alongside other institutions within the administrative framework of accountability. These include the Accountant General's Department and the National Audit Department. A description of the PAC's powers, responsibilities, membership and working practices precedes a discussion on its effectiveness in supporting the enhancement of accountability. In addition, this chapter also cites cases examined by the PAC that were highlighted in the media.

Keywords: accountability, transparency, parliament, Public Accounts Committee, Malaysia

Introduction

There has been an increase, over time, in the public demand for government transparency and accountability. Haque (1994) wrote that accountability is crucial to safeguarding the public sector's image of serving the public interest. McGee and Gaventa (2010, p. 5) wrote that the field of government transparency and accountability is 'alive with rapidly emerging citizen-led and multistakeholder initiatives.' The International Federation of Accountants (IFAC) also published a policy paper urging governments to implement institutional arrangements necessary for the enhancement of public sector financial management transparency and accountability (IFAC, 2012). The Malaysian government has been very responsive to the increasing demand for greater government accountability and transparency. In 1998, the government implemented the Prime Minister's Directive No. 1, aimed at enhancing the integrity of management in government administration (Ahmad Badawi, 2004). The National Integrity Plan (NIP) and the Malaysian Institute of Integrity were launched in 2004 by then Prime Minister Abdullah Haji Ahmad Badawi to further realize Vision 2020's goal of creating an ethical and moral society. In 2009, Prime Minister Najib Abdul Razak introduced Ministerial Key Performance Indicators (MKPIs) focused on delivering results in the effort to enhance government accountability. Subsequently, in 2010, the Prime Minister formally announced the Government Transformation Programme (GTP). The GTP covers an initial six national key results areas (NKRAs), including an initiative to fight corruption (PEMANDU, 2010). The NKRAs were identified based on the evaluation of demands from the public obtained through surveys of citizens.

Administratively, the two main institutions responsible for public finance accountability in Malaysia are the National Audit Department (NAD) and the Public Accounts Committee (PAC). This chapter aims to introduce the PAC and its role in ensuring the accountability of

Malaysia's federal government. In Malaysia, PACs are established by both federal and state governments. At the federal level, the PAC is established as a committee under Parliament, while at the state level, the PAC is established by the state's legislative assembly. Since more than 80 percent of public revenue is collected by the federal government, the emphasis on accountability should be applied more on the federal government relative to other levels of government. Thus, the discussions in this chapter focus on the PAC at the federal level.

This chapter provides a description of the role, responsibility, authority, functions, and performance of the Malaysia's federal PAC. Published studies on PACs are referenced to provide a more complete understanding of their roles. Several studies conducted in various countries have assessed performance in terms of the factors that determine the efficiency and effectiveness of PACs. These include McGee (2002), Stapenhurst *et al.* (2005), Hedger and Blick (2008), Stapenhurst and Kroon (2011), Pelizzo (2011) and Makhado, Mashela and Mokhari (2012). McGee (2002) concluded that there are two important elements in a public accountability system: the office of the Auditor General, and a parliamentary oversight committee (referred to as the PAC). Stapenhurst *et al.* (2005) extended the McGee (2002) study and identified 17 attributes of an ideal PAC that they believed deliver both efficiency and effectiveness. This chapter, in particular, uses the attributes developed by Stapenhurst *et al.* (2005) to assess whether Malaysia's federal PAC can be considered ideal or otherwise.

The remainder of this chapter is organized into five sections. The next section explains the context in which the PAC operates. Section 3 describes the methodology used to gather information about Malaysia's federal PAC. It is followed by findings and discussions in Section 4. Section 5 ends the chapter with a conclusion.

Context and Background

This section starts with a brief description of Malaysia's government structure under the provisions of the Federal Constitution, followed by a discussion on the institutional arrangements related to ensuring government accountability. Malaysia is a member of the Commonwealth Association and gained its independence from the United Kingdom in 1957. Politically, Malaysia is a constitutional monarchy with an elected Parliament. The Malaysian public sector was established in accordance with the Federal Constitution, which established three tiers of government: federal, state and local governments. The federal government controls external affairs, defence, internal security, civil and criminal law, citizenship, finance, commerce and industry, shipping, education, health and labour. The Cabinet, headed by the Prime Minister, is the highest co-coordinating executive body of all government activities and interests. The Cabinet is collectively responsible to Parliament. Adopting the Westminster bicameral parliamentary system, Malaysia's Parliament consists of two houses: the Senate (upper house), and the House of Representatives (lower house). Article 43(2)(a) of the Constitution stipulates that the Prime Minister is appointed from members of the House of Representatives (Laws of Malaysia, 2010).

Unicameral systems exist at the state level, where an Executive Council headed by a Chief Minister is the highest coordinating body for state matters. The Council is responsible to the state's legislative assembly. The state secretariat and other state/central government departments assist the Executive Council in the administration of the state's affairs. Each of the states has its own constitution, which must be compatible with the Federal Constitution. Local governments often referred to as local authorities, have been established under the jurisdiction of the state governments. Local authorities are primarily concerned with the

environment, including providing services such as street cleaning, the collection and disposal of solid waste and sewage; the provision of public amenities such as parks and markets; public health including the licensing of hawkers and shops.

The significant role played by the public sector in the Malaysian economy can be determined by examining government expenditures as a percentage of gross domestic products (GDP). The 2013 public sector accounts reported consolidated operating expenditures of RM211.3 billion, representing almost 22 percent of that year's GDP. The general government's development expenditures were reported to be RM42.2 billion, representing 4 percent of GDP. Over the years, the government's total operating and development expenditures have remained at almost 25 percent of GDP. In terms of employment, the expenditure on emoluments for the federal government's 1.4 million civil servants accounted for 28.5 percent of operating expenditures (Ministry of Finance, 2014). The allocation of resources between governments in Malaysia is very centralized. The federal government accounts for around 83 percent of the country's total public revenue. In terms of operating expenditures, the federal government spends a significantly larger amount that is slightly more than 90 percent of the total general government operating expenditure (Ministry of Finance, 2014).

The Federal Constitution sets out the rules regarding financial provisions under Articles 96 to 112. The government must table an annual budget for approval by Parliament. Following is a summary of financial provisions contained in the Constitution:

1. There can be no taxation or loans without the consent of Parliament.
2. Consolidated fund: all public moneys must be put in one consolidated fund.
3. Parliamentary appropriation: no payment can be issued out of the consolidated fund except as authorised by Parliament.
4. Annual budgets must be tabled in and approved by Parliament.
5. Annual accounts must be prepared and audited, to be tabled and passed by Parliament.

The above discussions show the importance of parliamentary controls. Parliament enacts, repeals and amends laws related to financial matters. It controls expenditures through budgeting, and it requires the Accountant General's Department (AGD) to table annual financial reports in Parliament. These reports must be audited by an oversight body, which is the NAD. In addition, Parliament has established the PAC to ensure accountability. The administrative arrangements related to accountability are discussed next.

Administrative Arrangements for Accountability

The use of money by the public sector starts from the preparation of the budget at the Treasury, approval of the budget by Parliament, allocation of resources through central agencies to the various departments and agencies and the preparation of accounts. The accounts, prepared by the AGD, are audited by the Auditor General. These audited accounts, are tabled together with the Auditor General's Report in Parliament. The Auditor General will also brief the PAC on issues arising from his report. The federal government's accountability framework is shown in Figure 1.

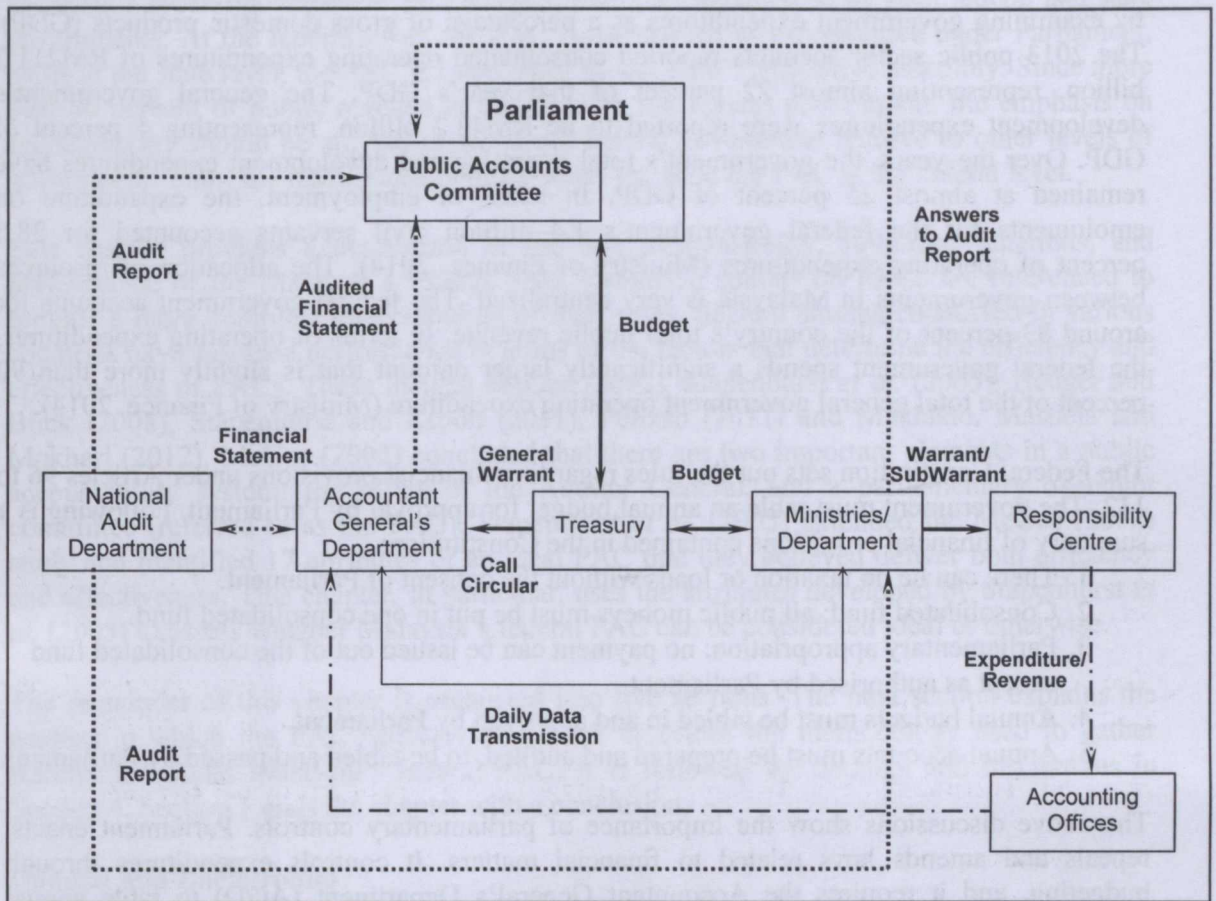


Figure 1: Financial Accountability in Malaysia's Federal Government
Source: Saleh (2002)

The Accountant General's Department (AGD)

The AGD is a department under Malaysia's Ministry of Finance (MOF). It was set up in 1947, at which time the first Accountant General was appointed. In order to facilitate the control of financial transactions and ensure efficient and timely services (including the preparation of accounts), the AGD has 25 branches located throughout the country. As described in Section 3 of the Treasury Instructions (TI)¹, the Accountant General is the federal government's principal accountant, with authority over any issues related to accounting and the accounts of both the federal and state governments (Laws of Malaysia, 2008). One of the functions of the AGD is to prepare the financial statements of the federal government. In addition, the AGD also ensures that in preparing the financial statements of the state governments, the state treasurers or accountants comply with the regulations and provisions of the same Constitution and legislation that apply to the federal government. The

¹ The Treasury Instructions (TIs) provide details on financial and accounting procedures. They encompass the regulations to be adhered to in the management of government funds. As stated in Section 4 of the Financial Procedure Act 1957, "Every accounting officer shall be subject to this Act and shall perform such duties, keep such books and render such accounts as may be prescribed by or under this Act or by instructions issued by the Treasury in matters of financial and accounting procedure not inconsistent therewith." (Laws of Malaysia, 2006b).

AGD manages accounting personnel for the government sector, including the appointment of state treasurers and accountants. They are, in turn, accountable to the Accountant General (Saleh, 2002).

The most recent development related to the AGD is the decision to move to accrual accounting. The decision was made in 2010, when accrual accounting was identified as one of the policy measures for public sector transformation. The new accounting system is expected to improve financial management – asset-liability management in particular – and subsequently enhance government accountability (Saleh, 2013). In the implementation of accrual accounting, the government has decided to adopt the International Public Sector Accounting Standards (IPSAS) and modify them to suit the Malaysian environment.

The National Audit Department (NAD)

The British administration set up the Auditor General's institution in the early 19th century to strengthen government financial administration. The audit function mainly involves the certification of accounts and the maintenance of records (NAD, 2014b). After Malaysia's independence, the institution was renamed the National Audit Department. The NAD is responsible for ensuring accountability in the administration and management of public funds through the audit of the accounts and activities of the federal government, state governments, statutory bodies, local authorities, Islamic religious councils and other public entities. This is stated in Article 106 of the Constitution, and in Section 1 of the Audit Act 1957 (Revised 1972) (Laws of Malaysia, 2006a).

The head of the NAD is the Auditor General, who is appointed by the *Yang di Pertuan Agong* (the ruler) in accordance with Article 105 of the Federal Constitution, which specifies:

- (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 re-appointment, but shall not 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 resign his office at any time but shall not be removed from office except on like grounds and in a like manner as a judge of the Federal Court.

The independence of the Auditor General is ensured through the provisions of the Federal Constitution and the Audit Act 1957 (Revised 1972). The Auditor General is appointed by the *Yang di-Pertuan Agong* and reports directly to Parliament. Article 106 of the Constitution specifies the powers and duties of the Auditor General as follows:

- (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.

Upon the completion of his audit of the financial statements of the federal and state governments, the Auditor General must submit an audit report as specified in Article 107 of the Constitution:

- (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 the State law, shall be submitted to the Ruler or *Yang di-Pertua Negeri* of that State, who shall cause it to be laid before the Legislative Assembly.

The scope of government auditing includes attestation, compliance and performance audits. The nature of an audit is specified in Section 6 of the Audit Act 1957, which states that the Auditor General must ascertain:

1. whether all reasonable precautions have been taken to safeguard the collection and custody of public moneys or other moneys subject to his audit;
2. 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;
3. 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;
4. whether all accounts and other records have been and are properly and faithfully maintained;
5. 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;
6. whether the provisions of the Federal Constitution and 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.

It is noted that the Act does not refer to auditing standards. However, as a member of the International Organisation of Supreme Audit Institutions (INTOSAI), the NAD has adopted the International Standards of Supreme Audit Institutions (ISSAI 1000 – 1999) in performing its audit functions (NAD, 2014b).

Several initiatives have been undertaken by the Auditor General and the NAD to enhance accountability. In 2008, the Auditor General introduced the financial management accountability index (FMAI). The index ranks financial management practices of ministries, departments and agencies and should serve as a benchmark for self-improvement (Abu Bakar and Ismail, 2011). The Auditor General tables two types of report: the AG's report on the financial statements and financial management, and the AG's report on the activities of the ministries, departments and agencies of the federal and state governments. As recommended by the GTP, the Auditor General tabled his report on activities in a three-part series starting from 2013, and tables it as and when Parliament meets (NAD, 2014b). This allows for speedier follow up on issues raised by the audit. The relevant ministry is expected to issue a feedback report containing its comments and outlining action taken on the issues raised by the auditor. Another NAD initiative to ensure accountability is the Auditor General's

Dashboard. The Dashboard is an online monitoring channel that oversees and reports on the actions taken by government agencies on the audit report (Arukesamy, 2013). The above initiatives were hoped to enhance transparency and accountability of the government.

Public Accounts Committee (PAC)

As a committee of Parliament, the PAC works closely with the NAD. It examines public accounts and responds to the Auditor General's reports on issues involving the misappropriation of public funds, and government inefficiency and/or ineffectiveness. Detailed information on the PAC, including its establishment, membership, powers and functions is provided in Section 4. The Committee is identified here, however, in order to emphasise its role in the management of public sector finance. The next section briefly explains the methodology used to gather information about the PAC.

Methodology

The objective of this chapter is to describe the roles, responsibilities and performance of Malaysia's federal PAC. A pragmatic approach to data collection was used whereby the author did what was necessary to arrive at the objective of describing the PAC's roles and effectiveness. Data in this chapter were gathered through archival searches of government pronouncements, circulars, reports and articles. Documents collected for the purpose of this chapter came from several websites, including the PAC website (www.parlimen.gov.my/pac) and the NAD website (www.audit.gov.my). The PAC website provides official reports summarising its investigations and conclusions with respect to highlighted cases, as well as news related to issues and PAC action. The NAD's website supplies information on the audit reports it has issued, and highlights controversial areas in their investigations. The discussion concerning the roles and performance of the PAC in Malaysia is descriptive. A focus group discussion was held with parliamentary officers with responsibility for attending to the needs of the PAC. The discussion was conducted to confirm the information obtained from the archival searches and to gain insight into the roles and functions of the PAC.

The focus group discussion involved three parliamentary officers attached to the PAC. These officers hold responsibility for maintaining documents, arranging for PAC meetings, investigations and hearings, coordinating PAC investigations according to the available expertise in various government agencies (particularly the NAD), as well as recording and maintaining reports of activities undertaken. A list of questions was emailed to the respondents prior to the discussion session so they could prepare beforehand. The questions prepared were based on the results of the archival search performed earlier. During the discussion, respondents were allowed to speak freely about their experiences and were prompted for additional information. The information obtained from the archival searches and focus group discussion was then analysed descriptively to generate the information presented in this chapter.

The effectiveness of Malaysia's PAC was examined using the attributes suggested by Stapenhurst *et al.* (2005), as the authors claimed that the attributes contribute to an ideal PAC. Stapenhurst *et al.* (2005) analysed data collected from 51 national and state/provincial parliaments in Commonwealth countries in Asia, Australasia, Canada and the United Kingdom. The 17 attributes of an 'ideal committee' were introduced based on their findings. The attributes cover two sets of factors deemed of great importance to understanding how the capacity of PACs can be built. The two sets of factors are (i) institutional design of the PAC,

and (ii) PAC functions and member behaviour. Institutional design includes the features, characteristics, power and mandate of the PAC, while PAC functions and member behaviour are best practices. The study also identified the following institutional factors that largely account for the success of the PAC: the focus on the government's financial activities rather than its policies, the power to investigate all past and present government expenses, the power to follow up on government action in response to its recommendations, and the Committee's relationship with the Auditor General. Best practices associated with PAC members include that members must act in a non-partisan fashion and should try to have a good working relationship with each other, and that the PAC should always strive to achieve consensus among its members

Findings and Discussions

This section includes a description and discussion of Malaysia's federal PAC, and an assessment of the PAC using the attributes of an ideal committee defined by Stapenhurst *et al.* (2005).

Malaysia's Public Accounts Committee

The description and discussion of Malaysia's federal PAC is organised as follows: (1) authority and structure, (2) relationship and resources, (3) power, roles and practices, (4) meetings, reporting and follow up, and (5) examples of cases investigated by the PAC.

(1) Authority and Structure

Malaysia's federal PAC is formed immediately after the beginning of each Parliament. The present Parliament, the 13th, began in July 2013. It also marked the appointment of PAC members who will hold office until 2018. The establishment of the PAC dates back to the first Parliament in 1959, although its role became prevalent only in the 21st century. The House of Representatives has five select committees, one of which is the PAC. Members of the PAC are selected from representatives in the House by another committee called the Committee of Selection. The Committee of Selection, comprised of the Deputy Prime Minister and the leaders of all main political parties with members in the House, selects members and forwards the names of its candidates to the Chairman of the House of Representatives. Members are selected based on their expertise and their ability to ensure the effectiveness of the PAC. In addition, the Committee of Selection works to ensure fair representation from both the government and the opposition. However, the appointment of the PAC's Chairman and Deputy is made through a motion brought by the Prime Minister and debated in the House of Representatives.

The regulations governing the PAC stipulate that it must consist of between six and twelve members, excluding the chair and deputy chair. The PAC, including the Committee appointed by the 13th Parliament, has always consisted of the maximum number of members. Although there is no specific requirement regarding which representatives may serve on the PAC, government ministers are not allowed to be selected. There is also no specific requirement in terms of the appointment of the Chairman of the committee. The appointment is determined through the approval of the House, and the position could be occupied by a member from either the government or the opposition. However, by convention, the Chairman's position has gone to a member from the government whilst the Deputy Chairman has always been a member of the opposition. If the Chairman and Deputy Chairman are

absent from a Committee meeting, the remaining Committee members shall elect any one member from among the remaining Committee members to act as a Chairman to preside over that meeting only. Even in this situation, a minister is still not allowed to be nominated or appointed to, or to act as a member or Chairman of the PAC.

The current PAC is composed of nine members from the government and five from the opposition. This reflects the composition of the House, where the majority of representatives are from the government. However, the 9:5 ratio has always been used, even when there were fewer opposition representatives in previous Parliaments. This adds to the credibility of the PAC's reports and conclusions and explains why PAC reports have rarely been challenged and have been used as reference points for debates in Parliament. The PAC obtains its authority and power through Parliament, and all rules regarding meetings, reports and procedures that apply to Parliament also apply to the PAC. The PAC shares facilities and resources, including human resources, with Parliament. At present, only one full time administrative staff is dedicated solely to the PAC, while other officers are shared with other offices of Parliament.

(2) Relationship and Resources

As indicated earlier, the financial accountability function of Parliament rests with two institutions: the PAC and the NAD. Thus, this explains the close cooperation between the PAC and the NAD. The PAC relies on the Auditor General's reports in initiating investigations of misconduct. The Auditor General is independent of the Cabinet and the PAC, thus the PAC cannot override the Auditor General's directives to staff within the NAD. The PAC maintains a formal relationship with the NAD but it can utilise the NAD's staff and expertise for its investigation and reporting tasks, as the PAC has only one full time administrative staff member of its own. For other tasks, the PAC has the authority to mobilise additional NAD staff. Besides the authority to utilise NAD staff, the PAC also has power to summon government bodies and agencies to supply them with information and assistance. Parliamentary staff and officers can also be called upon to assist the PAC in its work, with regard to the arrangement of meetings, investigations and related tasks.

In 1992, the Parliamentary Services Act 1963 (Act 394) was repealed by the Constitution (Amendments) Act 1992 (Act A837). This abolished the PAC's right to a financial allocation and control over its finances. Thus, at the present time, the PAC has no control over its budget or of any funds allocated to it. The position of the PAC as one of Parliament's select committees allows it to use parliamentary resources, as well as the resources of other government agencies. The members of the PAC are not entitled to any emoluments.

(3) Power, Roles and Practices

The PAC obtains its authority and power through the constitutional provisions enacted for Parliament. These provisions are called the *Peraturan-Peraturan Majlis Mesyuarat Dewan Rakyat* (Standing Orders of the *Dewan Rakyat* of Malaysia), and they provide the rules for the House of Representatives. The rules were created by the House based on Part 62(1) of the Federal Constitution. Section 77(1) Standing Orders (Parliament of Malaysia, no date) which outlines the roles and responsibilities of the PAC, authorises it to inspect:

1. the accounts of the Federation and the appropriation of the sums granted by Parliament to meet the public expenditure;

2. such accounts of public authorities and other bodies administering public funds as may be laid before the House;
3. reports of the Auditor General laid before the House in accordance with Article 107 of the Constitution; and
4. such other matters as the Committee may think fit, or that may be referred to the Committee by the House.

Based on the provisions of the Standing Orders, the PAC is responsible for ascertaining that government ministries, departments and agencies ensure that:

1. all public moneys are accurately accounted for;
2. all payments are made based on approved legislation, have been correctly charged and are supported;
3. all assets are used, controlled and disposed of in accordance with specified rules;
4. all accounts and records have been correctly and accurately maintained; and
5. public moneys have been used according to approved provisions.

In fulfilling its responsibilities, and as one of Parliament's select committees, the PAC has the power to summon witnesses and demand documents and information necessary for its investigations. It is an offence for an individual that has been summoned by the PAC to be absent or to fail to supply relevant information.

The PAC has the authority to comment on the implementation of any programmes or activities by government ministries, departments and agencies, with respect to whether the initiatives are beneficial and achieving their intended objectives. The PAC also has the power to provide advice on the use of public funds, particularly when it suspects waste or excessive spending. The comments and input provided by the PAC have always been used when the government drafts its development plans and prepares a new budget.

The Auditor General presents an audit report to Parliament three times a year. Immediately after tabling the audit report in the House of Representatives, the Auditor General will brief the PAC on his findings. The PAC will then respond to the Auditor General's findings by mobilizing the NAD, as well as the AGD's staff, to assist in its investigation. The parliamentary officers attached to the PAC will help to coordinate resources to meet the PAC's needs. This may involve, among other things, arranging meetings of PAC members, and summoning individuals to attend questioning sessions. The PAC also has the capacity to summon any individual, officer or department to assist in its investigation.

Approximately 80 percent of PAC investigations are based on the Auditor General's reports. The PAC also initiates enquiries and investigations that it deems necessary to examine issues highlighted by various parties. Some of the issues not in the Auditor General's reports that the PAC has investigated in recent years include reports dealing with the Port Klang Free Zone (PKFZ), missing jet engines belonging to the air force and the collapse of a stadium. PAC investigations extend beyond those related to financial issues and include performance reviews involving government ministries, departments and agencies. Nevertheless, the PAC is always careful to limit its investigations to the use of government and public money. There are instances where highlighted issues involve public listed companies; in such cases, the PAC has to draw the line between examining the use of public and private sector funds. In cases involving the private sector, the PAC would investigate through the central bank, Bank Negara Malaysia.

The PAC is obligated to report directly to the legislature. After the PAC is satisfied with its investigation and a consensus is reached by its members, a report will be submitted to the House of Representatives with recommendations for further action. However, the PAC can only make recommendations for follow up by the relevant authorities. Its report also serves as a reference point for debate in Parliament.

(4) Meetings, Reporting and Follow Up

It is compulsory for the PAC to meet after the Auditor General presents an audit report. Subsequent to a briefing provided by the Auditor General, the PAC will determine the issues raised by the report and the need for additional meetings. In addition, the PAC also meets when issues are raised either in Parliament, or by the public. The Committee has been quite active, recording at least one PAC meeting every month. In 2009, the PAC recorded a record high of 40 meetings over the course of the year.

Prior to a full meeting of the PAC, a Pre-Council meeting will be held. The Pre-Council consists of the PAC's Chairman, Deputy Chairman and Secretary, together with the Auditor General. The focus of the Pre-Council meeting is on issues highlighted in the Auditor General's report. The Auditor General will explain the issues and provide recommendations on relevant questions to ask the responsible officers during the PAC's investigations. The Auditor General's involvement does not stop at the Pre-Council meeting: he also attends the full PAC meeting and may be requested to provide additional information when necessary. A PAC meeting includes all 14 committee members, representatives from the NAD, AGD, MOF, EPU and the Public Service Department. The responsible officers from the respective ministries, departments and agencies will be called upon to explain the weaknesses or issues raised in the Auditor General's report, and any remedial action their organisations have taken to address them. In the event that the PAC is not satisfied with an explanation provided, the PAC's Chairman can request further confirmation and suggestions from the Auditor General.

It is compulsory for responsible officers to attend and respond at meetings and hearings when the PAC summons them. If a responsible officer fails to attend without providing a reasonable explanation, the PAC could choose to:

1. refuse to accept the submission of the representatives brought forward for investigation;
2. summon the official to provide a proper explanation of the inability to be present at the hearing; or
3. set another date for re-investigation of the respective officer.

PAC meetings, investigations and hearings involve only PAC members and relevant individuals. As such, the meetings are closed to the public. All meetings, discussions and investigations are recorded verbatim; drafts of the transcripts of proceedings are reviewed and confirmed by the relevant parties before they are printed. After the end of a meeting, the PAC will prepare a PAC Meeting Report with the cooperation of the NAD. The Report will contain the issues raised, their cause, details of the investigation, explanations from the responsible officers under investigation, and the Committee's comments, recommendations, and decisions. The PAC's power extends to suggesting action to be taken by certain individuals, and government ministries, department and agencies. The Report will then be presented to the House of Representatives. PAC reports are not debated in the House, as it is presumed that the content was properly deliberated during PAC meetings, which include a fair representation of members from the government and the opposition. Documentation and

reports relating to ongoing investigations are not made available to the public; the public can only access summarized reports after an investigation has been concluded and closed.

Paragraph 304(b) of the Treasury Instructions stipulates that the following actions shall be taken after a PAC Meeting Report has been tabled in Parliament (House of Representatives):

1. The Treasury of Malaysia shall notify the responsible officers of the relevant ministries, departments or agencies of specific content concerning them and their organisations in the report;
2. The responsible officers shall embark on implementing the recommendations made by the PAC, and report to the Treasury on any action taken as well as on the current status of the issues concerned;
3. The Treasury shall prepare a final memorandum detailing the actions taken by the responsible officers in response to the issues raised, and forward this to the PAC. The memorandum shall be prepared immediately, and is tabled at the following PAC meeting for deliberation and further suggestions.

The above instructions show that the PAC does follow up on its recommendations through the final memorandum and enforcement of the Treasury. There is no requirement for the PAC to present an annual report or any other performance report to Parliament.

(5) Examples of Cases Investigated

As indicated previously, the PAC investigates various cases highlighted in the Auditor General's report, as well as cases raised by members of Parliament involving ministers and top officials of ministries, departments and agencies, cases involving huge sums of money and fraud, as well as smaller cases. The following section cites investigations of several significant cases that have been officially published.

Port Klang Free Zone (PKFZ). In 1990, the government decided to upgrade Port Klang into a centre for regional loading and distribution. A 'Mega Distribution Hub' was established with a development project called the PKFZ. The objective of the PKFZ was to develop the free zone concept by combining the activities of a Free Trade Zone and a Free Industrial Zone in one area. The project was developed on a 1,000-acre parcel of land that offered extensive distribution and manufacturing facilities. The PKFZ also offered various investment incentives to companies willing to locate in the zone. These incentives included tax exemptions on most products and services, subsidies, the participation of wholly foreign owned enterprises, free repatriation of capital and profits and incentives for research and development, training and export. The PKFZ was based on the model of the Jebel Ali Free Zone in Dubai and was launched in July 2004. However, in 2007, the Auditor General's report on the Port Klang Authority (PKA) highlighted huge cost overruns amounting to RM 3.5 billion (USD 1.1 billion) associated with the Port Klang Free Zone. The original cost of setting up the integrated free zone was supposed to be RM1.8 billion, but this had increased to RM4.6 billion by the time the project was completed four years later. The PAC investigated the PKA and made recommendations, one of which resulted in an independent auditor being appointed in 2008 to conduct an audit. The auditor's PKFZ Position Review and Report were published in May 2009 and the audit report received huge coverage in the mass media. Further PAC investigations were held, resulting in the government's decision to form a special PKFZ Task Force in September 2009 to review the problems and make recommendations. The PAC then issued its final report with suggested actions on 27 October

2009. This resulted in the arrest of five people who subsequently faced criminal charges for misconduct in administering and financing the PKFZ (PAC, 2009).

Malaysia International Tuna Port (MITP). The Fisheries Department of Malaysia built a complex for fish landing in Penang in 1979 and handed over the complex to the Malaysia Fisheries Development Authority (LKIM) in 1984. In 2002, LKIM's board of directors approved a proposal by Bindforce Sdn. Bhd. to build and operate an international tuna port at the site in collaboration with LKIM. A MoA was signed in May 2002. In 2003, the government's Economic Planning Unit (EPU) approved the privatization of the port, resulting in the formation of a new company, Malaysian International Tuna Port Sdn. Bhd. (MITP Sdn. Bhd.). However, the Auditor General's report in 2009 raised the issue of the abandonment of the project after the government had spent RM95 million. The PAC started an investigation shortly thereafter by calling on several parties responsible for the project. The Committee also conducted a site visit in 2011. In this case, the PAC assessed the amount of possible loss for the government, highlighted weaknesses in the due diligence assessment conducted by the EPU, and indicated that the EPU should be held responsible. The PAC also highlighted the negligence of LKIM's management and representatives, and reported that the LKIM director should have carefully observed the project to protect the government's interest. The PAC also pointed out conflict of interest issues in the project's management that had been overlooked. The PAC's report resulted in action being taken against MITP Sdn. Bhd. and various responsible parties involved in the project (PAC, 2011).

Rawang – Ipoh Electrified Double Tracking Project. The main components in this project involved building an electrified rail system and upgrading existing track for the use of fast trains with a top speed of 160km per hour. The Ministry of Transport (MOT) acted as the project's implementing agency, with the responsibility for appointing contractors, organising financial provisions and ensuring that the government's interests were protected during project planning and execution. Malayan Railway Limited (KTMB), the end user of the resultant infrastructure, was responsible for preparing a Statement of Needs. The management and oversight function was undertaken by Syarikat Kinta Samudera-Opus Consortium (KS-Opus), a project management company appointed by the MOT. In 2008, the Auditor General's report highlighted numerous weaknesses found in the project. It mandated the PAC to investigate and, in particular, to justify the project's value for money as the project involved huge expenditures. In January 2010, the PAC reported abnormalities in the terms of the contract between the government and the main contractor. The PAC suggested that several facilities be redistributed, and that the MOT take stern action against the project managers who failed to supervise or oversee the project. The PAC also urged the MOF to blacklist companies involved in the project that failed to live up to their obligations to the project (PAC, 2010).

The Auditor General's 2012 report also identified many concerns that the PAC is currently investigating (NAD, 2013). Among others, the PAC will call on top officials to explain (i) weaknesses found at the Ministry of Education over the financial management of security control services, (ii) the National Film Development Corporation's (FINAS) 'patchy and inconsistent' financial management from 2009 to 2012, and (iii) the surge in the cost of the KLIA2 project (NAD, 2014a).

Assessment of PAC Performance

Every year the Auditor General's Report highlights cases of misappropriation of funds, potential civil servant fraud and government overspending. These incidents result in the public questioning of government accountability, and criticism of the role played by the PAC. The parliamentary Committee of Selection, in addressing the criticism, exercises care in selecting PAC members by ensuring that the Committee comprises members of diverse expertise, including those with an accounting background. Although Malaysia's PAC has been actively pursuing issues raised by the Auditor General, it has been criticised for (among other things) failing to tackle issues of graft and financial misappropriation, taking a long time to investigate and conclude issues, and lacking the power to probe into cases raised. However, these criticisms have been raised mainly on the Internet by social media. In order to assess whether the PAC is effective, the data gathered, described and discussed in the previous section were compared to the 17 attributes of an ideal PAC developed in Stapenhurst *et al.* (2005). An assessment based on these 'ideal committee' attributes would help to establish the credibility of Malaysia's federal PAC. Table 1 (below) illustrates the attributes of Malaysia's PAC.

Table 1: Assessment of the Effectiveness of Malaysia's Federal PAC

No.	Attributes	Yes/No
1	The committee is small; committees seem to work well with 5-11 members, none of whom should be government ministers.	✓
2	Senior opposition figures are associated with the PAC's work, and probably chair the committee.	✗
3	The Chair of the committee is a senior parliamentarian, fair-minded and is respected by parliament	✓
4	The committee is appointed for the full term of the parliament.	✓
5	The committee is adequately resourced, with an experienced clerk and a competent researcher(s).	✗
6	There is clarity on the committee's role and responsibilities.	✓
7	The committee meets frequently and regularly.	✓
8	Hearings are open to the public; a full verbatim transcript and summary minutes are quickly available for public distribution.	✗
9	A steering committee plans the committee's work in advance and prepares an agenda for each meeting to the full committee.	✓
10	The typical witness is a senior public servant (the "accounting officer") accompanied by the officials that have detailed understanding of the issues under examination.	✓
11	The Auditor's Report is automatically referred to the committee and the auditor meets with the committee to go over the highlights of the report.	✓
12	In addition to issues raised by the auditor, the committee occasionally decides to investigate other matters.	✓
13	The committee strives for some consensus in its reports.	✓
14	The committee issues formal substantive reports to parliament at least annually.	✓
15	The committee has established a procedure with the government for following up its recommendations and is informed about what, if any, action has been taken.	✓
16	In all its deliberations, the committee uses the auditor as an expert advisor.	✓
17	Parliament holds an annual debate on the work of the committee.	✗

Source: Stapenhurst *et al.* (2005, p. 25)

As evidenced in the table, Malaysia's PAC possesses 13 out of the 17 attributes of an ideal committee. The PAC is relatively small, excludes government ministers, and is appointed for the full term of Parliament. Abiding by regulations, the PAC's maximum number of members is 12, government ministers are not permitted to serve on the committee, and the appointment of members is aligned to the full term of Parliament.

As indicated previously, the PAC meets frequently (at least once a month), and a Pre-Council meeting precedes the full committee meeting to ensure that important issues and related matters are properly covered. The roles, responsibilities and powers of the PAC and its members are stipulated clearly in the Standing Orders of the *Dewan Rakyat* (House of Representatives). In general, 80 percent of the PAC's investigations result from issues raised in the Auditor General's Report, while the remaining cases are initiated by current issues raised by members of Parliament. The PAC issues a formal report to Parliament after completing its investigation and obtaining the consensus of its members. Although the Treasury Instructions require the Treasury of Malaysia to conduct a follow up and report back to the PAC, actual practice requires other government ministries, department and agencies to also report directly to the PAC on the results of their own follow up.

Although the PAC has never been chaired by a senior opposition figure, the Deputy Chairman comes from the opposition and the two top positions are determined in a parliamentary debate. In addition, senior opposition members do receive appointments to the PAC. Malaysia is not the only country where senior opposition members do not typically chair the PAC. Stapenhurst, Pelizzo and O'Brien (2012) highlighted that Australia also represents an interesting exception, as the country considers it advantageous to have a government member as chairman to better assist with the implementation of the PAC's recommendations. From 1992 onwards, the PAC has not had its own budget. Instead, it shares resources with Malaysia's Parliament. Although the PAC does not have many resources of its own, several Parliamentary officers are tasked with the responsibility of assisting the PAC. The PAC also has the power to summon resources, expertise, documents and other support from various government entities. While PAC meetings are not open to the public, a full verbatim transcript of meeting and hearing proceedings is submitted to Parliament, and summaries of the PAC's reports are published on PAC's website. Parliament, however, does not hold annual debates on the work of the PAC.

Therefore, it is evidenced that the Malaysian federal PAC has the attributes needed to be effective. The recurring issues highlighted in the Auditor General's Report are not the result of an ineffective PAC, but may be due to various other reasons such as an inability to take action and limited resources in conducting investigation and research. In addition, since the PAC's power is limited to investigating and forwarding its findings and recommendations to other parties, it is up to these parties (including the judiciary) to take further action – including penalizing offenders.

Conclusion

This chapter's discussion and conclusion are based on publicly available archival documents, as well as on a focus group discussion with three officers from Parliament. It covers only the appreciation of the PAC's role and performance, and an evaluation of whether or not it is considered an 'ideal committee'. Based on the findings, Malaysia's PAC has been actively pursuing issues highlighted in the Auditor General's Report, as well as other issues involving

government entities. Notable cases, such as the Port Klang Free Zone and the Rawang-Ipoh electrified double tracking project, have been discussed here. Malaysia's PAC is considered almost ideal since it possesses 13 of the 17 attributes of an ideal committee. The four attributes that the PAC does not possess include: the Committee does not have a senior member of the opposition as its chairman, the Committee does not have its own budget, the Committee does not hold public hearings, and there is no annual debate in Parliament on the work of the Committee. However, the findings show that the lack of these four attributes has not hampered the work of the PAC; recurring problems uncovered by the Committee, such as the misappropriation of government funding, are due to a lack of enforcement by other responsible agencies.

This chapter examined the PAC at the federal government level in Malaysia. Future research could look into the PAC at the state level, and could explore the factors that influence the PAC's effectiveness. Research involving interviews with members of the PAC, members of Parliament and officials from government ministries, departments and agencies to gain further insight into the effectiveness of the PAC and improving government transparency and accountability would also be worthwhile.

References

- Abu Bakar, N. B. and Ismail, S. (2011) 'Financial Management Accountability Index (FMAI) in the Malaysian public sector: a way forward', *International Review of Administrative Sciences*, 77(1), pp. 159-190.
- Ahmad Badawi, A. (2004) 'Message' in *National Integrity Plan*, Kuala Lumpur: Integrity Institute of Malaysia, pp. vii-ix.
- Arukesamy, K. (2013) 'AG's Dashboard to ensure accountability', *theSundaily*. Available at: <http://www.thesundaily.my/news/844897> (Accessed: 13 March 2014).
- Haque, M. S. (1994) 'The Emerging Challenge to Bureaucratic Accountability: A Critical Perspective' In Farazmand, A. (ed.) *Handbook of Bureaucracy*. New York: Marcel Dekker Inc., pp. 265-285.
- Hedger, E. and Blick, A. (2008) 'Enhancing accountability for the use of public sector resources: How to improve the effectiveness of Public Accounts Committees'. Available at: <http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/3466.pdf> (Accessed: 21 December 2013).
- International Federation of Accountants (IFAC) (2012) 'Public Sector Financial Management Transparency and Accountability: The Use of International Public Sector Accounting Standards', *IFAC Policy Position 4*, New York: IFAC.
- Laws of Malaysia (2006a) *Audit Act 1957 (Revised 1972) Incorporating all amendments up to 1 January 2006*. Available at: <http://www.agc.gov.my/Akta/Vol.%202/Act%2062.pdf> (Accessed: 26 August 2014).
- Laws of Malaysia (2006b) *Financial Procedure Act 1957. Incorporating all amendments up to 1 January 2006*. Available at: <http://www.ilkap.gov.my/download/pekeliling/agc/Act61.pdf> (Accessed: 15 September 2014).
- Laws of Malaysia (2008) *Arahan Perbendaharaan* [Treasury Instructions]. Available at: http://www.treasury.gov.my/pdf/lain-lain/arahan_perbendaharaan.pdf (Accessed: 26 August 2014).
- Laws of Malaysia (2010) *Federal Constitution. As at 1 November 2010*. Available at: [http://www.agc.gov.my/images/Personalisation/Buss/pdf/Federal Consti \(BI text\).pdf](http://www.agc.gov.my/images/Personalisation/Buss/pdf/Federal Consti (BI text).pdf) (Accessed: 26 August 2014).
- Makhado, R. A., Masehela, K. L. and Mokhari, R. W. (2012) 'Effectiveness and Efficiency of Public Accounts Committees (PACs) in Enhancing Oversight and Accountability in the Public Sector', Paper presented at the 2012 SALSA Development Seminar, East London, Eastern Cape, South Africa. Available at: <http://www.sals.gov.za/devseminar/2012/rmakhado.pdf> (Accessed: 21 December 2013).
- McGee, D. (2002) *The Overseers – Public Accounts Committees and Public Spending*. London: Pluto Press.

- McGee, R. and Gaventa, J. (2010) 'Synthesis Report- Review of Impact and Effectiveness of Transparency and Accountability Initiatives', Transparency and Accountability Initiative, London. Available at: <https://www.ids.ac.uk/publication/review-of-impact-and-effectiveness-of-transparency-and-accountability-initiatives> (Accessed: 16 September 2014).
- Ministry of Finance (2014) *Economic Report 2013/2014*. Available at: http://www.treasury.gov.my/index.php?option=com_content&view=article&id=2735:economic-report-2013-2014&catid=262&Itemid=2478&lang=en (Accessed: 4 September 2014).
- National Audit Department (NAD) (2013) *Laporan Ketua Audit Negara Persekutuan 2012*. Available at: https://www.audit.gov.my/index.php?option=com_content&view=article&id=414:laporan-ketua-audit-negara-persekutuan-2012-3&catid=108&Itemid=474&lang=ms (Accessed: 18 September 2014).
- National Audit Department (NAD) (2014a) *Liputan Media*. Available at: https://www.audit.gov.my/images/media/Liputan_Media/The_Star/2014/the%20star-jan%202014.pdf (Accessed: 18 September 2014).
- National Audit Department (2014b) *Malaysian Public Sector Auditing – At A Glance*. Available at: https://www.audit.gov.my/images/pdf/2014/Pengauditan/bi_buku_malaysian_public_sector_auditing_at_a_glance_opt.pdf (Accessed 15 September 2014).
- Parliament of Malaysia (no date) Standing Orders of the *Dewan Rakyat* of Malaysia [*Peraturan-peraturan Majlis Mesyuarat Dewan Rakyat*]. Available at: http://www.parlimen.gov.my/images/webuser/news/PM_DR_BI.pdf (Accessed: 4 January 2014).
- Pelizzo, R. (2011) Public Accounts Committees in the Commonwealth: Oversight, effectiveness, and governance. *Commonwealth & Comparative Politics*, 49 (4), p. 528-546.
- Performance Management and Delivery Unit (PEMANDU) (2010) *Government Transformation Programme – The Roadmap*. Available at <http://www.pmo.gov.my/GTP/index.php> (Accessed: 17 September 2014).
- Public Accounts Committee (PAC) (2009) *Laporan Jawatankuasa Kira-Kira Wang Negara Terhadap Projek Pembangunan Zon Bebas Pelabuhan Klang*. Available at: <http://www.parlimen.gov.my/images/pac/LapPAC-PKFZ.pdf> (Accessed: 18 September 2014).
- Public Accounts Committee (PAC) (2010) *Laporan Jawatankuasa Kira-Kira Wang Negara Mengenai Projek Landasan Berkembar Elektrik Antara Rawang dan Ipoh*. Available at: <http://www.parlimen.gov.my/pac/review/docs-53-49.pdf> (Accessed: 18 September 2014).
- Public Accounts Committee (PAC) (2011) *Laporan Jawatankuasa Kira-Kira Wang Negara Mengenai Pengurusan Pembangunan Pelabuhan Antarabangsa Tuna Malaysia*

MITP. Available at: <http://www.parlimen.gov.my/pac/review/docs-56-52.pdf>
(Accessed: 18 September 2014).

Saleh, Z. (2002) *Governmental Accounting in Malaysia*. Unpublished Ph.D. Thesis. Wales: Cardiff University.

Saleh, Z. (2013) 'Financial administration II: Accounting and reporting' In: Siddiquee, N. A. (ed.). *Public Management and Governance in Malaysia: Trends and Transformations*. Oxford, UK: Routledge, pp. 121-139.

Stapenhurst, R., Sahgal, V., Woodley, W. and Pelizzo, R. (2005) 'Scrutinizing Public Expenditures: Assessing the Performance of Public Accounts Committees', *Policy Research Working Paper #3613*. Available at: <http://wbi.worldbank.org/wbi/Data/wbi/wbicms/files/drupalacquaia/wbi/Scrutinizing%20Public%20Expenditures.pdf> (Accessed: 18 September 2014).

Stapenhurst, R. and Kroon, C. (2011) 'Public Accounts Committee Profiles and Performance in Canada', *Canadian Study of Parliament Group*. Available at: http://www.studyparliament.ca/English/pdf/ongoing/CPSG_World_Bank_on_PACs.pdf (Accessed: 21 December 2013).

Stapenhurst, R., Pelizzo, R. and O'Brien, M. (2012) 'Ex Post Financial Oversight: Legislative Audit, Public Accounts Committees....and Parliamentary Budget Offices?' OECD Parliamentary Budget Fiscal Councils and Independent Fiscal Institutions, 4th Annual Meeting, OECD Conference Centre, Paris. Available at: <http://www.oecd.org/gov/budgeting/49778002.pdf> (Accessed: 16 September 2014).