# Developing a Disclosure Index for Local Authority Published Accounts - A Comparative Study of Local Authority Published Financial Reports Between the UK and Malaysia

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***Hugh M Coombs***
Division of Accounting and Finance, School of Accounting and Mathematics
University of Glamorgan, Treforest CF37 1DL

and

***Mohamad Tayib***
School of Accounting, Universiti Utara Malaysia, Sintok 06010 Malaysia.

Tel: 44 +1443+482392
Fax:44+1443+482711

Email: HCOOMBS@GLAM.AC.UK Or
MTAYIB@GLAM.AC.UK



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**Abstract**

*This study is concerned with examining the financial reporting practices of local authorities in two divergent economies - the UK with its long established industrial and financial base and the rapidly emerging 'tiger' economy of Malaysia.*

*It can be argued that sophisticated users of accounting information in well developed countries are in a better position to exercise their rights with regard to the form and content of accounting information that is demanded that users in a developing economy such as Malaysia. The first step in such a process is, however, to identify what is proved in terms of financial information and then to compare that with the needs of users of accounting information. This study is specifically concerned with identifying and examining the financial information which is provided in the published financial accounts of local authorities in the countries being studied although reference is made to the perceived needs of users. Appropriate comparisons are drawn on the basis of this analysis.*

*It can also be argued that the diversity of views in terms of the disclosure practices of local authorities is traceable to the complex environment in which their financial reporting practices originated. Similarly the amount of information disclosed, and its form and content, is dependent on the ability of the constituencies which hold power in the regulatory process to bargain (for example, the professional bodies) or impose their will by mandatory regulation (central government). Finally, it is valuable to compare the financial reporting experiences of an established economy with that of a rapidly emerging market to identify parallels and contrasts.*

*Following general background and an outline of the research methodology, the paper reviews the requirements of the regulatory bodies in determining the form, content and amount of information to be disclosed in the annual financial report and accounts for local authorities in the countries concerned with this study. The requirements examined include both statutory and non-statutory requirements and covers the role of the professional accounting bodies as appropriate. A disclosure index based on the CIPFA Code of Practice on Local Authority Accounting in the UK is then developed and applied to a sample of local authority accounts from both countries and used to assess disclosure in the annual financial reports and accounts.*

*The results show a significant difference in the accounting disclosure practiced between the UK and Malaysia particularly in the revenue account. UK local authorities tend to be more responsive to all items listed in the index. Malaysian local authorities demonstrate that they are not far behind in term of the format and notes to the accounts as required by the UK Code in respect of the balance sheet. The study reveals that, although very high, 100% compliance with the Code of Practice in all categories was not achieved by UK local authorities. Malaysian local authorities, obviously, achieved a lower level of compliance with the CIPFA Code but these lower scores are the result of the accounts not given the equivalent details to their UK counterparts as the same level of disclosure does not apply in Malaysia.*

*The study also reveals that the historical relationship between the UK and Malaysia has not influenced to any great extent the present structure and systems of the Malaysian local authority published financial accounting statements. It is also can be said that the comparative development of local authority accounting in the two countries studied is very much influenced by the level of interest expressed by the central/state government, professional bodies and user groups.*

*In conclusion, the extent of disclosure practices of local authorities in both countries are shaped by the complex and dynamic environment in which their reporting practices originated.*

## Introduction

The paper is concerned with examining the financial reporting practices of local authorities in two divergent economic environments - the UK with its long and well established industrial and financial base and the rapidly emerging 'tiger' economy of Malaysia.

It can be argued the more developed the country, like the UK, potentially the more sophisticated are users of accounting information and the higher their potential demands for financial information. Acting either individually, or collectively, sophisticated users are in a better position to exercise their rights with regard to the form and content of accounting information that is demanded than an equivalently wide body of potential users in a developing economy, such as Malaysia, who may not be as financially sophisticated, or able to act as a co-ordinated group. This may be due to such factors as a lack of accounting knowledge or infrastructural systems which could act to channel demand for change. Whatever the level of sophistication of users and infrastructural arrangements, however, the wider the body of users the wider the potential range and greater diversity of information that may be demanded.

Prior to attempting to assess the needs and demands and level of sophistication of users the first step, however, is to identify what is provided in terms of financial information and then, subsequently, to develop the analysis to include users objectives and abilities. This study, therefore, is specifically concerned with identifying and examining the financial information which is provided in the published accounts of local authorities in the countries being studied although reference is made to the perceived needs of users where appropriate. The difficult area of identifying the needs of users, particularly with regard to the accounts of public sector organisations, in the different countries is left for further research.

The paper also demonstrates that the diversity of disclosure practices adopted by local authorities in both countries is traceable to the complex and changing environment in which their reporting practices originated. Similarly it shows that the amount of information disclosed, and its form and content, is dependent on the ability and will of the constituencies which hold power in the regulatory process to bargain (for example, the professional accounting bodies) or to impose their will by mandatory regulation (central government) in the context of the historical development of local authority reporting in each country. Finally the paper stresses the importance of comparing the financial reporting practices of local authorities in an established economy with those in a rapidly emerging market to identify parallels and contrasts to add to our general understanding of international issues of accountability in public sector organisations.

In addition there has been very little previous research on the issue of comparative financial reporting practices between countries in the public sector in general and, specifically, in the local authority context. There are, however, numerous previous studies on the comparative international financial reporting practices of private sector firms (see, for example, Gray and Roberts, 1986; Benjamin and Stanga, 1977; Tayib, 1987; Choi and Mueller, 1992). Similarly textbooks on international accounting tend to ignore the public sector (Mueller *et al* (1997), Nobes and Parker (1995), Haskins *et a.* (1996). In the public sector, as stated, there has been a comparative neglect of these issues. One example of comparative work between the published accounts of local authorities is the study carried out by the UK researchers Jones and Pendlebury (1982) on reporting practices of UK and European local authorities. This study concentrated primarily on the analysis of the form and content of UK local authority published accounts although some reference is made to continental European local authority accounts. Coombs and Liberman have examined financial reporting in the former Soviet Union and UK local authorities (1990 and 1994) although this work was not strictly comparative.

This study, therefore, represents an early attempt at a comparative study in exploring the extent of financial information disclosure between countries by public sector organisations as well as seeking to identify and explain the differences of the financial reporting practices reflected in the financial report and accounts of local authorities in the United Kingdom and Malaysia.

The UK has a long and well established system of local government evolving from the ancient boroughs through the establishment of the modern municipal corporations in 1835[1] and various special purpose boards from the 1850s into today's comprehensive structure of multi-purpose local authorities covering the whole country. Malaysia, on the other hand, inherited a British legacy in terms of local government objectives and style and has been influenced deeply by the British precedent (Norris, 1980). A comparison, therefore, between these two countries will provide evidence to the extent that the UK has influenced the current development of Malaysian local authority financial reporting. This evidence could also indicate the contribution that well-developed local authority accounting practices in the UK have contributed or, could still contribute, to the development of its counterpart.

This exercise has, however, been carried out in the belief that the diversities of municipal financial disclosure practises across countries are due to the complex economic and general historical environment in which their reporting practices originated.[2] The reporting environment for government units recognised by Drebin (1981) offers a list of ten different constituencies with a legitimate interest in financial reporting practices of these bodies. These include political participants such as boards of review, legislative bodies and voters; revenue suppliers such as taxpayers, inter-governmental granting agencies; service beneficiaries; and other paying consumers of governmental goods and services and management. These separate classes of users have a primary, but different, interest in local authority financial reporting although the need for certain specific financial (and other) information may overlap.

[1] The foundation of the modern system of local government in the UK can be seen to have been established by the Municipal Corporations Act 1835 (Coombs and Edwards, 1996, 21)

[2] See for example Alexander and Britton (1994,174) comments on international private sector accounting.

It is, therefore, considered valuable to compare the financial reporting experiences of an established economy with well-developed local authority financial reporting practices with those of a rapidly emerging market and are historically related to identify parallels and contrasts in the form of financial reporting before further research can be undertaken to identify the specific constituent need in each country. As stated earlier this paper deals with the first of these aspects by establishing the present state of financial disclosure via the annual accounts.

**Structure of the Paper**

The following broad structure is adopted for the remainder of this paper:

(1) Following a brief background section the research methodology section justifies the approach adopted and introduces the disclosure index which is used later in this paper

(2) Thirdly we examine the evolution of the financial reporting practices in the countries which are the subject of the monograph

(3) Reporting practices are then compared in detail between the UK and Malaysia for a sample of local authority published accounts using the disclosure index developed and the accounting requirements adopted by each country for local authorities compared; and,

(4) Finally appropriate conclusions are drawn. These conclusions rationalise on the causes of the differences between the form of financial reporting adopted by the two countries.

**Background Information**

Historically, a number of well-developed countries have made important contributions to the development of accounting. Britain, for example, has not only imported double entry from Italy and exported this practice to the world but has also exported the concept of a true and fair view, first to the other countries of the British Commonwealth and, more recently, to the other European community countries (Parker, 1989). While there is a *prima facia* case to accept this view if we refer to the development of private sector accounting rather than public sector accounting (see, Nobes and Parker (1995), Choi and Mueller (1992)) as stated above no attempts have been made to assess and explain internationally the development of local authority accounting.

A closed relationship existed between Malaysia and the UK, especially in the early stage of local authority development in Malaysia, and could provide a foundation in assessing the extent that this relationship influenced the development of accounting practices in Malaysian local government as for over 150 years Malaysian local authorities (at that time Malaya) were governed under British style laws. The Municipal Rates Act 1848 was the first statutory requirement that obliged municipal councils of the United Settlement (municipal committees at that time) to publish a statement of accounts for the public. Then, 100 years later, the British extended their style of administration to other Malay States by placing their Resident or Adviser in the government of the State Rulers. Significant powers were concentrated in this role and the pattern of 'traditional local authorities' were substituted by the British by a nexus of government departments in the charge of British appointed officers (Nahappan Report, 1970,17). A present day comparison between the two countries will help provide some evidence as to what extent local authority financial reporting practices in Malaysia have developed in comparison with the UK Differences may indicate whether the development of local authority financial reporting practices have been influenced by the internal or external environmental factors.

## Research Methodology

The data analysed later in this study is drawn from the financial reports and accounts of ten British and Malaysian local authorities for the year 1994/1995. The UK and Malaysian local authority accounts used in this paper were selected through personnel contacts in both countries. This was seen as providing the potential to make further contact with individual finance officers should the need arise over any points of technical difficulty although, such contacts as did take place subsequent to the gathering of the initial reports and accounts, were limited. In addition by concentrating on a small sample of published financial reports and accounts reduces the number of subjective assumptions used as the basis for the calculation of the disclosure index developed later in this paper. The study also does not aim to provide an absolute measure of differences between the accounting practice between the two countries but to indicate what differences exist. It was felt that a detailed analysis could be undertaken on a limited set of accounts and that any comparison that could be drawn on the basis of this information was still valid as the study attempts to show. The data collected also provided the opportunity to test whether the concept of using professional guidance as a disclosure index was practicable. The local authorities contacted in the UK were Birmingham City Council, Vale of Glamorgan Borough Council, Rhondda District Council, Bridgend Borough Council and Merthyr Borough Council. For Malaysia the authorities were Ipoh City Council, Petaling Jaya Municipal Council, Kangar Municipal Council, Shah Alam Municipal Council and Sungai Petani Municipal Council.

Comparison between statutory and non-statutory requirements of the published financial reports and accounts between the two countries are considered necessary in order to give a clear picture of the differences in published accounting information that are currently applicable to UK and Malaysian local authorities. These differences will lead to the identification of variations in practice between local authorities in both countries. Compliance by local authorities to statutory and non statutory advice in both countries to the requirements imposed on them is another question examined in this paper. Several methods, therefore, can be used in measuring the extent to which disclosure of information is included in financial reporting. This study, however, has employed the disclosure index methodology.

Disclosure indices generally have been used in numerous accounting research studies- Gray and Hasslam (1990) Dixon, Coy, and Tower (1991), Fisher Banks and Nelson

(1996) studied UK and New Zealand Universities and Canadian accounting reports respectively, Copeland and Fredericks (1968) examined the extent of disclosure on listing applications to the New York Stock Exchange and Hossain *et al* (1994) examined listing information on the Kuala Lumper stock exchange. Jones and Pendlebury (1982), and Giroux, (1989) have adopted the above method in determining the level of information disclosure in local authority financial reports and accounts. The items included in the model were mostly derived from the statutory and non-statutory requirements imposed on the local authorities by respective bodies. The same basic method has been applied to this study. There are no weightings given to the items in the index. This is due to the small sample size used in this study and to try to improve validity given the inevitable subjectivity of this exercise (see Marston and Shrives, 1991). Previous experiences also show that the use of unweighted and weighted scores for the items disclosed in the annual reports and accounts can make little or no difference to the findings. Firth (1980), for example, noted that unweighted and weighted scores showed similar results. On the other hand, unweighted scores have no value judgements attached and no bias in deciding which score should be used for the items disclosed.

The disclosure index adopted in this paper are the requirements set out in the CIPFA Code of Practice on Local Authority Accounting for Great Britain (1993) and the supplementary information in the guidance notes to practitioners issued by the same professional body(1994). These have been used as they imply neutrality in the composition of the index, and, have been devised by the professional and statutory authorities in the UK as meeting the standards of 'proper accounting practice' for local authorities. They thus provide a benchmark which can be consistently applied across the financial reports and accounts being examined in both countries and is independent of the research study thus reducing the extent of subjectivity judgement employed by the researchers. It is recognised that this form of disclosure index is that seen as setting requirements for disclosure which meets the views of the profession in the UK to achieve accountability for the financial actions of local authorities. It was, however, extensively discussed and reviewed in the UK by both statutory and non statutory bodies and is felt to be a valid basis against which to judge whether a local authority is meeting its obligations to users in its disclosures in its published accounts.

## Evolution Of Reporting Practices

This section explores the development in financial reporting in the countries which are the subject of this research in order to give the general statutory and non statutory environment in which local authority accounts are published in both countries. It examines, *inter alia*, the role of statutory regulation, the influence of the professional bodies in the development of financial reporting and the general context in which financial reporting evolved in both countries in determining the content of information disclosed in financial reports and accounts.

### *United Kingdom*

Jones has argued that local authority reporting in the UK *is* a function of statute (1996). While Coombs and Edwards have shown the contribution made by the profession, local authority members and a variety of other factors particularly over the period 1835 to 1935 (1996 b).

Early local authority accounts in the UK were based on a charge discharge basis although the major municipal corporations and urban district councils had probably developed income and expenditure reporting by the early 1900s.[3] The earliest known reference in English legal records to a form of local government audit is dated approximately 1430 whereby the commissioners were appointed and charged with the responsibility for examining the accounts and the individuals involved in preparing the accounts. They had a power to recover the amounts improperly treated by collecting any money remaining in the collector's possession or to charge that sum on the same collectors (Jones, 1981). The general implementation of the rating system by the Poor Law Act of 1601 was accompanied by procedures to oversee the process of accounting for the rates. The specific requirement of the Act was to ensure that there was 'a true and perfect account of all sums of money received, rated and sessed, and not received, and also of such stock as shall be in hand' (Sec.2). This requirement, however, did not require the accounts to be in writing and the presentation (audit) was often made orally before the local justice of the peace.

Since the Poor Law Act, new acts, statutory instruments and professional guidance have been introduced with varying requirements for both accounting measurement and disclosure (see, for example, Jones (1981) and Coombs and Edwards (1996)). Examples of key statutory measures within this time frame would be the Municipal Corporations Act 1835, the Accounts (Borough and Metropolitan Borough) Regulations 1930, The Local Government Act 1933, The Local Government Act 1972, the Local Government Planning and Land Act 1980, and the Local Government and Housing Act 1989. A summary of the key present day statutory and non statutory requirements for UK local authorities are set out in Appendix 1a to this paper.

Today's accounting measurement and disclosure framework for UK local authorities is compiled and summarised under the Accounting Code of Practice on Local Authority Accounting for Great Britain issued within a permissive statutory framework. The Accounting Code of Practice was first published in July 1987 and developed as professional guidance by CIPFA. This Code of Practice specifies the principles and practices of accounting required to prepare a Statement of Accounts which "presents fairly" the financial position and transactions of an authority.

The Code sets out the *proper accounting practices* required for Statements of Accounts prepared in accordance with the statutory framework established for England and Wales by Regulation 7 of the Accounts and Audit Regulations 1983 [AAR 83] (as amended) and by section 66(4) of the Local Government and Housing Act 1989 [LGHA 89]. In Scotland the statutory framework is established by the Local Authority Accounts

[3] the historical elements of this paper are broadly taken from two sources. Coombs H.M and Edwards J.R (1996) *Accounting Innovation Municipal Corporations 1835-1935* and Jones, R. (1992),*The History of the Financial Control Function of Local Government Accounting in the United Kingdom.*

(Scotland) Regulations 1985. Appendix 2 sets out the requirements of the Accounts and Audit Regulations (Section 7) and compares these with the Code of Practice.

As regards the term 'proper accounting practice', Section 66 of the LGHA 89 defines this as 'those accounting practices which the authority are required to follow by virtue of any enactment; or which, whether by reference to any generally recognised published code, or otherwise, are regarded as proper accounting practices to be followed in the keeping of the accounts of local authorities either generally or of the description concerned'. Section 66 also stated that, in the event of a conflict in accounting practice arising between statute and code, then only those falling within statute (and related regulations) are to be regarded as proper practices. The latest Code of Practice has been issued under the 1989 Act and is accepted by the regulatory body as providing the basis for proper accounting practice.

Section 66 of the LGHA 89 states that in the absence of specific legislation, the accounting profession is free to develop what it regards as proper practice. More importantly, where the accounting profession has issued recommendations on appropriate standards of financial reporting for local government, they should be followed and, therefore, such guidance now has statutory backing as non-statutory proper practices. This means that the professional body in the UK has the opportunity to play a vital role in promulgating and developing local authority financial reporting standards. This, it can be argued, perpetuates the role established by the Corporate Treasurers and Accountants Institute (CTAI)[4] as one of its key initial objectives was to make a major contribution to the development of the local authority financial reporting (Coombs and Edwards, 1996, 33). In 1930, for example, the introduction of regulations which were to form the basis of local authority accounting for the next fifty years were 'considered and agreed by the IMTA and the Association of Municipal Corporations before being promulgated by the Minister (Carson Roberts, 1930: p.386) The successor body to the IMTA, the Chartered Institute of Public Finance and Accountancy (CIPFA) has as discussed above made a major contribution to local authority accounting by its development of the Code of Practice on Local Authority Accounting.

Finally, with regard to statutory requirements, local authorities are required to comply with the Citizen's Charter and publish information on standards of performance as required by the Audit Commission while the Commission itself publishes nationally performance indicators for all authorities under the Publication of Information (Standards and Performance) Direction 1992. This information may be financial (unit costs) or qualitative. Local authorities also provide information on budgets, grants levels etc. to council taxpayers in the literature which accompanies council tax bills under the Local Government Act 1992.

In addition to the Code of Practice other main areas of professional guidance include:

*(1) CIPFA's Standard Classification*

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[4]CIPFA was originally founded as the Corporate Treasurers and Accountants Institute in 1885 with a name change to the Institute of Municipal Treasurers in 1901.

A central feature of UK local authority financial accounting is that they account for revenue income and expenditure ‘segmentally’, that is income and expenditure is analysed objectively over individual services. In order to narrow the areas of accounting difference between authorities CIPFA (primarily in 1955)[5] developed a standard classification for reporting to allow for comparability between authorities. This comprises of objective heads (e.g. education) and subjective heads (e.g. employees). This standard classification forms the basis of all local and national financial accounting for local authority services and associated statistical collections.

*(2) Accounting for Overheads*

Given the nature of local government a significant amount of expenditure is incurred on overheads. In order to ensure that the standard form is not undermined CIPFA has published extensive guidance on the apportionment and allocation of overheads. The statement in addition to defining overhead, such as support service costs, calls for a consistent basis of apportionment to be used and for that basis to be disclosed in the accounting policies statement (CIPFA, 1991). Recent advice has also been issued on the development of internal trading accounts for these services (1993b).

*Capital Accounting*

The method of accounting for capital expenditure in UK local authorities has been criticised for a long time (see, for example, Sidebotham, 1970, Parkes 1988). In 1993 CIPFA set up the Capital Accounting Working Group which resulted in the requirement for local authorities in the UK to replace their system of primarily, debt charge accounting for capital assets, and based, broadly, on the double account system and the basis of how the asset was financed with a system charging service managers with an asset rent. Managers will now be charged for the use of assets based on current cost depreciation plus an interest charge for capital consumption. The objective of this change being to encourage managers to make more effective use of assets.[6] This system has been accepted by the regulatory body as sound accounting practice and is currently in the process of being introduced.

***Malaysia***

The basis for the modern system of local government in Malaysia (at that time Malaya) was introduced by the British in 1801 when a ‘Committee of Assessors’ was set up at Penang and charged with the responsibility of planning and implementing urban development[7]. The first local government legislation introduced were regulations

[5] Advice issued by the forerunners of CIPFA on standardisation can be traced back to 1889 (Coombs and Edwards, 1996,33). See also the 1955 standard form (IMTA 1955).
[6] The actual calculation of these charges varies by category of asset but the net effect on the taxpayer is intended to be zero in that the current cost adjustments are taken out at the authority level by a bookkeeping adjustment and the external loan and interest charges substituted at this stage.
[7]The British East India Company first established trading relationships with the rulers of Western Sumatra in 1658. Independence was granted in 1957 (Allen, 1983,15).

issued under the East India Company's Charter and these were followed by the Indian Legislation Act and the Municipal Rates Act in 1848 to establish municipal committees in the areas of Penang, Malacca and Singapore[8] (also known as the United Settlement). It is significant to note that under Section 15 of Municipal Act 1848, the Municipal Committee was required to publish a statement of accounts for the interest and query of ratepayers ( Nahappan Report, 1970,13) replicating similar provisions in the British Municipal Corporations Act 1835. From that time, numerous amendments and new ordinances were gradually introduced by the British with the primary objective being the better administration of local government in Malaya and, covered such matters as, land administration and revenue collection.

The rules and regulations introduced were not standardised through-out Malaya and varied according to states or territories to which those regulations applied - for example, the Malay States of Perak, Selangor, Negeri Sembilan, Pahang, Kelantan, Trengganu, Perlis, Kedah and Johore had their own rulers and thus, own rules and regulations. As a result of which, there were a wide variety of law and ordinances[9] which applied in the whole country before the 1973 restructuring process[10] was begun by the federal government. No clear rules and regulations spelling out the form and content of the statement of accounts that should be prepared by the local authorities were laid down either before or after the independence of Malaya as shown by the following statement.

> 'It was evident to us that there exists a very grave need for a complete review of the existing accounting procedures and for the drafting of uniform model accounting procedures for adoption by all local authorities. Items of revenue and expenditure should categorised under proper headings so that not only would it provide a clear and comprehensive picture of the financial position of the authority but also facilitate comparative studies in local government finance'
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> *(Nahappan Report,253)*

The Nahappan Report also shows that the early statements of accounts prepared by Malaysian local authorities are income and expenditure statements. This corresponds to the methods practised by UK local authorities and discussed earlier in this paper.

After what can be regarded as a period of neglect of local government accounting matters following independence, as a response to the Nahappan Report, the federal government took almost immediate action by restructuring local authorities in Peninsular Malaysia. Following the passage of the Local Government (Temporary Provisions) Act 1973 in Peninsular Malaysia, all the basic laws that regulated the powers, duties, responsibilities and functions of local authorities were reviewed and

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[8] These three states were under the British administration.

[9] The existing laws for local authorities are: the Municipal Ordinance S.S Cap. 133, the Town Boards Enactment F.M.S. Cap. 137, the State of Kelantan Municipal Enactment 1938, the Town Boards Enactment No. 188 (Johore), the Town Boards Enactment, Trengganu (Cap. 64), the Town Boards Enactment F.M.S. Cap 137 as made applicable to Perlis, by the Town Boards (Application to Perlis) Ordinance, 1952, the Town Boards Enactment F.M.S. Cap 137, as made applicable to Kedah by F.M. Ordinance No. 52/56 and the Local Councils Ordinance, 1952.

[10] This restructuring process limited to local authorities in West Malaysia only.

codified. Three parent laws were enacted for that purpose: The Street, Drainage and Building Act 1974 [SDBA 74]; the Local Government Act 1976 [LGA 76]; and the Town and Country Planning Act 1976 [TCPA 76].

Of the three acts, the LGA 76 is the most important instrument for accounting purposes as it outlines the requirement for local authority to keep proper records and books of account. Section 53 states that:

> 'the local authority should keep proper records and accounts, and record all the transactions incurred by the local authority, and that these records and accounts should be available for inspect at any time by any of the councillors of that local authority with the permission of Mayor or President'

When compared with the UK system, the statutory basis for compiling financial reporting statements by Malaysian local authority financial reporting is not clear. Sections 41 and 42, for example, of the UK LGHA 89 specifically make clear to local authorities what is meant by 'proper accounting practice', but the same thing is not defined in any of the Malaysian regulations. Even though Section 54 (4) does require the publication of annual reports it does not make clear to local authorities the potential content of these reports and, what consists of proper practice in compiling, or keeping the records for, the financial statements under-pinning these reports. (A summary of the key statutory and non statutory requirements for Malaysian local authorities are set out in Appendix 1b to this paper).

Financial accounting reports are not made available to the general public or council taxpayers as there is no such requirement under current Malaysian law. Financial accounts are made available to councillors, the external auditor, the Ministry of Housing and Local Government and the state authority. They are eventually published (in full) in the official government gazette after audit. The time period of the process depends on the speed with which authorities prepare their annual accounts, but on average, is completed about six months after the December year end which is the accounting date for all Malaysian local authorities.

Four different accounting standards have been found to have been adopted by Malaysian local authorities. In a study of local authorities in Peninsular Malaysia it was discovered (Tayib, 1994) that at least four different accounting standards had been adopted - International Accounting Standards [IAS], guidance issued by the Ministry of Housing and Local Government [GMHLG], Federal Treasury Circular [FTC] No.15, and self created accounting practices [SCAP]. Of the four practices, the IAS and FTC are the most widely complied with by the local authorities. Even within these two methods of preparing accounts the methods advised by the FTC received the greatest attention by accountants in local authorities. The basic reason for this being that all the financial statement and accounts of the local authorities are audited by the Government Auditor General who makes extensive use of FTC guidance as a main reference point in undertaking the annual audit and has thus had significant influence over the form of local authority published information in Malaysia. Some authorities have also, voluntaily, adopted what they consider to be appropriate international standards e.g. IAS 5 and IAS 20 as a result of pressure following preparation of the financial statements by private sector accounting firms. These statements have then audited by the government auditor general.

## Analysis and Discussion

Analysis and discussion is divided in two main sections:

(1) comparative financial reporting requirements and practices; and,
(2) analysis of the information disclosure in the financial reports and accounts.

### *Comparative Financial Reporting Requirements and Practices*

As discussed above uniformity of the local authority financial reporting practice has a long history in the UK. As early as 1889, the Corporate Treasurers and Accountants Institute began attempts to achieve standardisation of the local authority financial reporting. Local authorities gradually over time accepted these requirements in publishing their financial statement and accounts. Thus local authorities initially voluntarily followed and adopted a standard terminology, a standard framework of presentation and standard definitions in preparing their reports and accounts. Today, all the requirements dealing with local authority published financial accounts have been complied and published in the Code of Practice and as such the environment has changed from voluntary to what can be interpreted as a statutory obligation under the terms of ‘proper accounting practice’ enforced by the external auditor.

On the other hand, the above situation did not happen in Malaysia even though there was a closed relationship between the UK and Malaysia in the early stage of the local government development in Malaysia. This can be proved by looking at the present accounting practices in Malaysian local authorities.

There are no specific requirements, either statutory or non-statutory, currently to monitor or overseeing financial reporting practices in Malaysian local authorities. As has been discussed earlier, a general requirement for the preparation of records and accounts by local authority is stated in the LGA 76, although the details of the requirement regarding the form and content of the accounts has been surrendered to each State authority. This could be explained by the fact that local government in Malaysia, by the provision of the Federal Constitution, is a national creation but local authorities provide local services and, as such, their day to day financial transactions should be accounted for and regulated by the state in which they operate**.**

To date no specific requirement statutory guidance has been issued regarding the form and content of the financial reports and accounts by any of the State authorities. There are 12 states in Peninsular Malaysia and 97 local authorities. Potentially if State authorities responded to the permissive federal legislative requirements, there could be 12 different requirements in local authority practice throughout Peninsular Malaysia.

To develop even within this permissive statutory framework there is a need for expertise. At the State level, however, a major problem faced by these bodies is attracting qualified accountants to work for their local authorities. Tayib (1994) in his study of 77 local authorities in Peninsular Malaysia, discovered that there were only 23 out of 77 local authorities who employed qualified accountants. Some local authorities (those without accountants) are allowed by their state authority to contract-out the process of preparing financial statements to private sector accounting firms. This contrasts with the UK in that accounts are currently prepared in house by local authority staff who would be members of one of the professional bodies. Even if this function was contracted out by local authorities in the UK under current legislation on 'white collar' competitive tendering the accounts would still be prepared by equivalently qualified staff operating within UK accounting standards and enforced by the external auditor.

As an alternative to specific state legislation numerous local authorities in Malaysia have adopted the Federal Treasury Circular No. 15 - Guidance for Preparing and Presenting Annual Report and Financial Statement for Federal Statutory Bodies [GPPARFS], for guidance in preparing their financial reports and accounts. Any federal statutory bodies, covered by the Statutory Bodies (Annual Report and Accounts) Act 1980, have to adopted GPPARFS as their main reference in preparing and presenting the annual reports and accounts, but there is no provisions in any instruction, either statutory or non-statutory, stating that local authorities should adopt the above guidance in preparing their financial reports and accounts. These rules and regulations were developed internally by the federal government and can be regarded as self generated accounting principles.

One of the main reasons that could explain the adoption of GPPARFS by local authorities is the requirement of the external auditor. The Federal Government Auditor General (FGAG) is the main auditor to all government agencies including local authorities. GPPARFS is the only guidance available issued by the government. Local authority have no alternative guidance or, as discussed below, the necessary expertise to develop their own standards and, therefore, they have to accept the GPPARFS.

Another setback for the potential development of local authority financial reporting in Malaysia is caused by the lack of involvement of the professional bodies as compared to its UK counterparts. The Malaysian Institute of Accountants (MIA) and Malaysian Association of Certified Public Accountants (MACPA) are the two main accounting standards governing bodies in Malaysia. No significant contributions have so far been made, however, by these two professional bodies, or, significant interest expressed, in the development of local authority financial reporting. In the private sector context almost all the accounting standards adopted by these two bodies have come from the International Accounting Standards Committee.

The Malaysian Institute of Public Sector Accounting (IPSAM) is another professional association with the potential to provide a lead to the federal government in the development of public sector accounting and reporting standards. The establishment of the new association with potentially enthusiastic members was considered appropriate and timely with the potential to enhance the development of the public sector accounting standards given the lack of development of public sector accounting and reporting standards and the vacuum not filled by the existing professional bodies. All its members are public sector accountants working in this field and as such have first hand knowledge of the problems and prospects for governmental (including local authority) accounting and reporting. Unfortunately, this association is not particularly active and its establishment has not been widely trumpeted. The unclear direction and low profile taken by this association are clearly factors that contribute to an ineffective professional body. This contrast remarkably with CIPFA which from its early days as the Corporate Treasurers and Accountants Institute was very active in promoting its perceived role (Coombs and Edwards, 1996, 114).

Table 1 below shows the minimum requirements that should be disclosed in the financial reports and accounts by local authorities in both countries.

**Table 1:**
**The Minimum Disclosure Requirement in the Financial Report and Accounts**

| United Kingdom | Malaysia |
|---|---|
| an explanatory foreword | the statement by council members (councillors) |
| a statement of accounting policies | a declaration by the officer primarily responsible for the financial management of the council |
| the accounting statements | the accounting statements |
| notes to the accounts | notes to the accounts (including accounting conventions and accounting policies) |
| Audit report -presents fairly | Audit report - True and fair |

Basically, there appears little significant differences in the minimum disclosure requirements between the two countries. The UK disclosure requirement, however, is more demanding when compared to its Malaysia counterpart by making compulsory the ‘explanatory foreword’ to be included in the statement of accounts. The explanatory foreword attempts to gave users a better understanding of the items reported in the accounts and fulfils a similar purpose to the directors’ report in a set of company accounts. The authority should provide in this statement an explanation in overall terms of the financial position (and facts), and aim to assist in the interpretation of the accounting statements (Code, 1992, 4).

In Malaysia, on the other hand, the statement of the chairman and board of directors (equivalent to the Mayor/Chair and councillors of a local authority) and the declaration by the officer (chief accountant or chief financial officer) primarily responsible for the financial management is strongly recommended by FTC No. 15 for all government agencies (as stated above a local authority is seen as broadly equivalent to a government agency in Malaysia). This statement says that the chair (together with the board of directors or councillors) of government agencies are fully responsible for what they are reporting in the financial reports and accounts. This requirement can be interpreted as placing a duty of care on those making the statement that all related records and accounts are properly kept and monitored.

The components of the accounting statement of a local authority for both countries is displayed in Table 2.

**Table 2:**
**The Components of the Accounting Statements**

| United Kingdom | Malaysia |
|---|---|
| The General Or Country Fund Summary Revenue Account/Consolidated Revenue Account on objective basis | Income And Expenditure Account prepared on subjective basis |
| The General Fund Balance Sheet/Consolidated Balance Sheet | Balance Sheet |
| Cash Flow Statement | Source and Application of Fund Statement |
| Other Accounts*:<br>housing revenue account<br>collection fund<br>community charge and NDRI account<br>water and sewerage summary revenue account<br>revenue and capital movement<br>Summary DSO revenue and appropriation account<br>Superannuation fund accounts | Other Related Accounts:<br>• ( but does not mention the type of account to be prepared) |

* as appropriate to the class of authority

Again, the UK requires more information to be disclosed by local authorities. Whereas the Malaysian local authority faces a very minimum requirement imposed on them and even the above represents the voluntary adoption of FTC.No.15. On the top of that, there is a totally different format or style adopted by the two authorities in presenting their income and expenditure accounts. The content of the UK local authority revenue account aims to provide a fundamental understanding of the financial implications of a local authority's activities by an objective analysis of expenditure by function. It reports the cost for the year of the major functions for which the authority is responsible and compares that cost with the finance provided from charges made by the authority, taxes raised and income from central government grants. The Malaysian counterpart broadly adopts the same practice but no comparison can be made between the cost of local authority activities and sources of income as income in the sample accounts examined was not broken down into its constituent elements.

With regards to the balance sheet requirement, there are no major differences in term of the format and general content of the balance sheet except that the UK local authority has to prepare a consolidated balance sheet as well as an individual balance sheet for any fund which cannot be consolidated[11]. A significant difference, however, is that since the adoption of the new capital accounting system assets in the UK balance sheet (with certain specific exemptions) will be valued on a *current cost* basis. A cash flow statement based on Financial Reporting Statement 1 is required by the UK and adopted by the latest CIPFA Code of Practice published in 1995 whereas in Malaysia a statement of sources and application fund is published. However, according the Code of Practice, the content of the Statement of Revenue and Capital Movement prepared by the authority will fulfil the Regulation 7 (3)[e] requirement for a statement of sources and applications of funds required under the UK Accounts and Audit Regulations.

[11]The best example is probably the superannuation (pension) fund which is a trust fund for the employees.

Appendix 4a and 4b disclose more information about the format and content of income and expenditure (revenue) account and balance sheet.

The differences between the two practices could be better explained by an examination of the activities or functions of the local authority of the two countries. Table 3 shows the activities of the local authorities in two countries.

**Table 3:**
**Activities and Services of Local Authorities in the UK and Malaysia**

| Major Activity/Service | United Kingdom* | Malaysia |
|---|---|---|
| Education | Local Authority | Central Government; State Government and Private Sector |
| Social Services | Local Authority | State and Central Government |
| Roads and Highways | Local Authority | Private Sector and Central Government |
| Leisure | Local Authority | Local Authority |
| Waste Collection and Disposal | Local Authority | Local Authority (up to 1997 only) Private Sector (from 1998 onward) |
| Sewage systems | Local Authority | Private Sector (from 1994) |
| Planning and Development | Local Authority | Local Authority |
| Libraries | Local Authority | Local Authority |
| Environmental and Public Health | Local Authority | Central and State Government Local Authority (very minimum) |
| Public Transport | Local Authority | Private Sector |
| Consumer Protection | Local Authority | Central Government |
| Economic Development | Local Authority | State and Central Government |

* some services are subject to competitive tender and may therefore be run by the private sector but monitored by the local authority or alternatively provided by a combination of local authority and private operators.

It can be seen from the table that local authorities in the UK provide and manage major service in their areas and therefore need to account for a significant use of resources. In contrast, local authorities in Malaysia only provide smaller scale activities or service less vital to the wide body of the citizenship if compared to the UK counterpart. Some of the critical services operated by UK local authorities have been privatised in Malaysia, such as refuse collection and disposal and are totally outside local authority control. UK local authorities, also, receive a higher level of government grant in support of their services in comparison to Malaysian local authorities. The *quid pro quo* therefore is significant central government interest in local authority accountability for the use of resources

In Malaysia the State and Central government are involved in the provision of local authority services as not all of the country is covered by a local authority administration area. Out of 50,806 sq. miles (the total area of Peninsular Malaysia) only 8,760.73 sq. miles are local authority areas, which means that only 17% of the territory in Peninsular Malaysia are under local authority jurisdiction (Phang, 1985). Local authority accounts in Malaysia are thus , from the point of view of local taxpayers, only relevant to a smaller local taxpaying constituency as compared to the United Kingdom and this coupled with low government grants (and even an intention longer term to phase out federal government grants) are thus lower on the scale of priorities for both federal and state government.

The general requirements imposed (UK) by the regulatory bodies or adopted voluntarily (Malaysia) in both countries are shown in Table 4:

**Table 4:**
**General information to be included in Published Financial Report and Account**

| Information to be disclosed | United Kingdom | Malaysia |
|---|---|---|
| Comparative figures (previous year) | Yes | Yes |
| Financial summary by the Director of Finance | Yes | No |
| Footnotes for each account prepared | Yes | No |
| The statement of the council President and one of the other councillors | No | Yes |
| A declaration by the officer primarily responsible for the financial management of the council | Yes | Yes |

As discussed earlier, the UK requirements seem to be more users oriented (at least as seen by the profession) by requiring more information to be disclosed in order to satisfy the needs of all the potentially interested parties. In theory this pressure for more disclosure should have increased as the country has become more economically advanced and taxpayers become better educated needing more sophisticated and better information to make informed decisions. An alternative theory is that the accounting profession and government bodies have decided that this is what should be provided irrespective of user demands. Indeed there does seem a lack of evidence of a wide spread potential user demand especially amongst council taxpayers (see, for example, Collins *et al*, 1991) although Tayib has found some evidence that council taxpayers in Malaysia may be prepared to pay their local tax demands more quickly if additional accounting information was provided (1997). It also could be argued that the new UK local authority capital accounting arrangements (CIPFA, 1996) are a recognition that what is needed is better *internal* information for the management of assets and further advances the influence of the profession.

## Analysis of the information in the Financial Reports and Accounts

Detailed analysis of the published accounts of the authorities selected for this paper is contained in Appendix 3. Information published by the authorities has been compared with the disclosure requirements of the CIPFA Accounting Code of Practice for both countries. A score of one was awarded for each item that the code required and the accounts marked against this and then added by section (e.g. disclosure of accounting policies) to test the percentage level of achievement for each authority against the code. Where an item was judged not applicable by the researchers on a detailed analysis of the published accounts it was ignored in both sides of the equation. A conservative view was taken in analysing the accounts in treating items as not applicable due to the difficult of trying to form this type of judgement. Specific requirements in the UK for the separate publication of results for Direct Service Organisations or the Housing Revenue Account were also ignored in this analysis given the specialist UK nature of these accounting requirements. The research was thus concentrating on broad general requirements for published information. The cash flow statement was ignored in this exercise as Malaysian local authorities do not produce this statement. Summary results for this analysis are set out in Table 5.

**Table 5:**
**Compliance with the Code of Practice for Individual Local Authorities**
**The Disclosure of Information in the Statement of Accounts - Summary**

| | **Country** | **LA 1 (%)** | **LA 2 (%)** | **LA 3 (%)** | **LA 4 (%)** | **LA 5 (%)** |
|---|---|---|---|---|---|---|
| Accounting Policies | UK | 93 | 80 | 94 | 80 | 87 |
| | Mal | 79 | 73 | 73 | 57 | 64 |
| **Revenue Account** | | | | | | |
| Content of the Account | UK | 100 | 100 | 100 | 100 | 100 |
| | Mal | 0 | 0 | 0 | 0 | 0 |
| Format of the Account | UK | 100 | 100 | 100 | 100 | 100 |
| | Mal | 33 | 33 | 33 | 33 | 33 |
| Notes to the Account | UK | 100 | 75 | 50 | 75 | 75 |
| | Mal | 75 | 75 | 75 | 75 | 75 |
| **Balance Sheet** | | | | | | |
| Content of the Account | UK | 100 | 93 | 100 | 71 | 100 |
| | Mal | 36 | 36 | 45 | 36 | 36 |
| Format of the Account | UK | 100 | 100 | 100 | 75 | 100 |
| | Mal | 80 | 80 | 80 | 80 | 80 |
| Notes to the Account | UK | 100 | 73 | 100 | 100 | 91 |
| | Mal | 60 | 60 | 80 | 80 | 100 |

Source Appendix 3: The Disclosure of Information in the Statement of Account

As might be expected, the UK local authority financial reporting practice is very much different compared to its Malaysian counterpart in terms of its level of disclosure. It can, however, be commented that the 'devil is in the detail' in that the major differences in the above summary table relate to the extent to which UK practice requires *additional* disclosure. This is related to the continuous monitoring by CIPFA, with its series of updated accounting standards, and is likely to continue to widen the gap between the financial reporting practice followed by the two countries unless Malaysian local authorities decide to alter their approach. It should be noted, for example, that the UK is currently using its third Code of Practice since it was first introduced in 1987.

It is inevitable that with a rapidly developing economy with what seems like a relatively low interest in their financial affairs that Malaysian local authorities have still to explore or, generate interest in the exploration of, what are the best solutions for their financial reporting practice. As stated earlier in this paper UK local authority accounting has recently developed further by requiring local authorities to include new capital accounting transactions in their accounts and to provide further analysis of the apportionment  and allocation of overhead in their financial reports and accounts.  This compares with the attitude adopted in Malaysia where a comprehensive study on improving local government cost accounting models was carried out by private sector accounting firms in 1992 but no further action was taken on their report by either the federal government or state authorities.

The UK differs from  Malaysia by disclosing detailed information regarding income and expenditure of the services provided by their local authorities.  Gross expenditure, income and net expenditure of individual services are provided in the financial statements and this can give a better view to the users of where the money was spent - especially useful in analysing a local authority's performance in delivering a specific service.  On other hand,  local authority in Malaysia provides basic information to the users - where the money comes from (source of income) and  where the money goes. The expenditure is classified according to the types of expenditure incurred - i.e. it is a subjective analysis.  This tends to make the statements less complex to understand but limits the analysis that can be done on service performance.

There are, however, few significant differences in presenting the balance sheet statement by the two countries although the technical differences are significant given the valuation basis used. In term of format of the balance sheet, local authorities in Malaysia have adopted  a very similar format to that which is  practised by the private sector companies with only minor amendment. Increasingly the UK local authority balance sheet also resembles that of a private company as the new capital accounting rules are being adopted. This has come about primarily because of the 1988 LGHA as prior to this authorities use to publish information by specific fund and this led to the publication of tremendous detail in extensive financial reports[12].   The significant difference again between the two countries is in the level of detailed analysis particularly with regard to the detailed classification of fixed assets. Full details of the formats adopted for the revenue accounts and balance sheets for the two countries are shown in Appendix  4a and 4b.

The study reveals that, although very high, 100%  compliance with the Code of Practice in all categories was not achieved by UK local authorities.  Malaysian local authorities, obviously, achieved a lower level of compliance with the CIPFA Code but these lower scores are the result of the accounts not given the equivalent details to their UK counterparts as the same level of disclosure does not apply in Malaysia and the use of a subjective rather than an objective analysis in the revenue account. Table 6 does, however, demonstrate how far in global terms Malaysian authorities are from achieving UK disclosure standards and compares this performance with that achieved by UK local authorities.

[12]see for example Bucknell 'Abstract Reflections', Local Government Chronicle, 23 November 1973.

**Table 6:**
**Overall Compliance by the UK and Malaysian**
**Local Authority of the Statement of Account Requirements**

| **Disclosure Area** | **United Kingdom** | **Malaysia** |
|---|---|---|
| Statement of Accounting Policies | 87% | 69% |
| **Revenue Account/Income and Expenditure Account** | | |
| a) Content of the statement | 100% | 0% |
| b) Format of the Statement | 100% | 33% |
| c) Notes to the Accounts | 75% | 75% |
| **Balance Sheet** | | |
| a) Content of the statements | 93% | 38% |
| b) Format of the Statements | 95% | 80% |
| c) Notes to the Accounts | 93% | 76% |

It was also clear even with the limited sample of UK local authorities that some authorities regarded the document as of more importance than others. This is consistent with findings by CIPFA (Layton, 1992, 4). Some UK authorities choose to build a picture of the overall image of the authority with extensive use of graphs to explain the accounts whereas, for others it seemed purely a technical exercise. Authorities contacted also stated that they used only small production runs for their annual accounts due to a lack of demand from other than members of the authority. Similarly some authorities have tried to generate interest in their affairs by the publication of an epitome or an 'accounts newspaper' as part of the annual report (e.g. Coventry and Cardiff City Councils). The views expressed by officials was that these methods had only limited impact and in some cases had been withdrawn. All the chief financial officers at the local authorities selected in the UK were members of CIPFA and, as stated above, although none of the authorities complied fully with the CIPFA Code their membership, plus the statutory obligation as to proper practice, has the potential to influence the high percentage compliance rate that was achieved. Clearly all these activities place a high compliance cost on UK local authorities (and UK taxpayers) and it should be borne in mind that any move by Malaysian local authorities to disclose significant extra information has a potential agency cost the size of which is related to the extent of any changes.

Having compared the disclosure achieved between local authorities in both countries with regard to the disclosure index used the remainder of this section of the paper compares what the authorities actually publish against their respective codes on disclosure - the CIPFA Code of Practice and the Guidance for Preparing and Presenting Annual Reports and Financial Statements for Federal Statutory Bodies.

Table 7 shows a direct comparison between disclosure in the two countries for accounting policies under these requirements.

**Table 7:**
**Items that are Disclosed in the Statement of Accounting Policies by the UK and Malaysia Local Authorities**

| United Kingdom | Malaysia |
|---|---|
| Full explanation of all material reserves and provisions | Full explanation of all material reserves and provisions |
| Fixed assets (including valuation and charges basis) | Fixed assets (including valuation and charges basis) |
| Deferred charges | Deferred charges |
| The treatment of the capital receipts arising from the sale of fixed assets | The treatment of the capital receipts arising from the sale of fixed assets |
| The treatment of Grants | The treatment of Grants |
| The basis used in determining the amount of Interest charges | The basis used in determining the amount of Interest charges |
| The basis used in providing for the redemption of debt | The basis used in providing for the redemption of debt |
| The treatment of leases, covenants and similar schemes | The treatment of leases, covenants and similar schemes |
| The basis significant estimates included in debtor and creditors | The basis significant estimates included in debtor and creditors |
| The basis of valuation of stocks and work in progress | The basis of valuation of stocks and work in progress |
| Overheads | - |
| The basis of the provision of pensions | - |
| Investments | Investments |
| Deferred credit | Deferred credit |
| Capital accounting | - |

The Table shows clearly no disclosure by Malaysian local authorities of policies on the provision of pension, the allocation of overheads and the basis of any provisions. It is also worth pointing out that only two (20%) out of the five UK local authorities surveyed highlighted the implications of the adoption the new framework for capital accounting in their financial statements despite the fact that this users may expect some explanation for such a significant change. The response by Malaysian authorities on capital accounting is limited to disclosure of the valuation of fixed assets and their depreciation rates where applicable which is directly comparable to their UK equivalents.

Table 8 shows the items published in detail by UK and Malaysia local authorities in their revenue accounts. The research found high compliance here in both countries with their respective codes.

**Table 8:**
**Detailed Comparison of the Items Disclosed in the Revenue Accounts of UK and Malaysia Local Authorities**

| **United Kingdom** | **Malaysia** |
|---|---|
| **Revenue Account** | **Income and Expenditure Account** |
| ***Content of the Statement*** | ***Content of the Statement*** |
| Income according to activities or services rendered | - |
| Income according to source of income | Income according to source of income |
| Gross expenditure according to services | Expenditure according to type of expense |
| Net expenditure according to services | |
| ***Format of the Statement*** | ***Format of the Statement*** |
| Gross Expenditure, Income, Net Expenditure on each services | Income |
| Appropriations | Expenditure |
| Source of Finance | |
| ***Notes to the Statement*** | ***Notes to the Statement*** |
| Basis of recognition (accruals and cash basis) | Basis of recognition (accruals and cash basis) |
| Analysis of expenditure | Analysis of expenditure |
| Pensions | Analysis of income |
| Income relating to prior years | Income relating to prior years |

Again it will be noted that the main difference is again one of detail. As stated earlier the format is one of significant difference with the UK giving a greater breakdown into detail by service.

Table 9 shows a direct comparison between the items that are disclosed in the balance sheet. The details of the information disclosed in the financial reports and accounts of the local authorities in both countries are shown in Appendix 3 (see, Exhibit 1 to Exhibit 6).

**Table 9:**
**Items Disclosed in the Balance Sheet by UK and Malaysian Local Authorities**

| United Kingdom | Malaysia |
|---|---|
| **Balance Sheet** | **Balance Sheet** |
| ***Content of the Statement*** | ***Content of the Statement*** |
| Fixed Assets at book value | Fixed Assets at book value |
| Deferred charges | Deferred charges |
| Long term investments | - |
| Long term debtors | - |
| Current assets (less provisions) | Current assets (less provisions) |
| Current liabilities | Current liabilities |
| Long term borrowing | - |
| Deferred credits - government grants | - |
| Reserve | Reserve |
| ***Format of the Statement*** | ***Format of the Statement*** |
| Total of fixed assets | Total of fixed assets |
| Assets less current liabilities | Assets less current liabilities |
| Assets less liabilities | Assets less liabilities |
| Equity | Equity |
| ***Notes to the Statements*** | ***Notes to the Statements*** |
| Movement of fixed assets | Movement of fixed assets |
| Depreciation of fixed assets | Depreciation of fixed assets |
| Fixed assets revaluation | Short term liabilities |
| Long and short term liabilities | Short term investments |
| Deferred charges | Creditors and debtors |
| Reserves | Reserves |

In terms of cash flow the UK provides a cash flow statement while the Malaysian provides a statement of sources and applications of funds

## Review and Conclusions

Lack of research interest in international public sector reporting could be one of the factors that impedes the development of the public sector accounting. Even though, well-developed countries such United Kingdom, United States, Australia and New Zealand, have good examples of well conducted research on the public sector financial accounting framework within their own countries researchers seem generally less concerned about international issues in public sector reporting. This study, therefore, represents an early attempt to push forward the boundaries in this area particularly with respect to local authority published financial reports

The findings of the study show that the historical relationship between the UK and Malaysia relationship has not influenced to any great extent the present structure and systems of the Malaysian local authority published financial accounting statements. It could be hypothesised while there may have been a general non-specific effect on Malaysian local authority accounting as a result of the UK administration of Malaya the UK standards that were promulgated by CIPFA (beginning effectively in 1955) were too late to be introduced in Malaysia, even if the administration had been interested, given the move to independence in 1957. As shown the most significant influence on

Malaysian local authority published accounting reports are those promulgated by the Federal Treasury resulting from their influence over external audit.

It is also true to say, however, that such changes that have been made in Malaysia have been relatively slow. The private sector professional bodies do not show a significant level of interest to further improve public sector financial reporting. In comparison the UK evidence shows that a powerful and influential professional body like CIPFA has played an important role in influencing the development of local authority accounting continuing a role it has seen as important since its foundation. The work of CIPFA has been given a high recognition by the UK government whereby all the accounting standards developed by this bodies has been accepted and implemented through out local authorities within a permissive statutory framework although the bottom line is that central government has the final decision on what is proper accounting practice. The extent of this interest in imposing its own standards is speculated as being related to the extent of its financial support of UK local government. This demonstrates that active participation from government together with a pro-active professional body has made a significant difference to the financial reporting environment of local authorities in the UK. This being despite any apparent demand from a wide body of users as shown by Collins *et al.* This situation of close collaboration between the professional body and the federal government does not at present exist in Malaysia nor does there seem significant interest amongst either party to change the situation discovered.

Anyone wishing to use local authority financial information in Malaysia has greater difficulty accessing this information than equivalent users in the UK. Tayib (1994), for example, revealed that easy access to financial reports and accounts is limited to councillors, auditors, the state authority, and the Ministry of Housing and Local Government and that the general ratepayer is not that interested. Any individual, who is interested to inspect the financial reports and accounts of a specific local authority has to wait until the reports are published in the official government gazettes. This means that the process of getting financial information by the public from any local authority inevitably takes time and there is the possibility of a lack of interest as any potential issues fade. No accounting information is provided with the assessment tax bill. Any change in practice would, however, need to recognise that significant agency costs could arise. In contrast in the UK any ratepayer has the right to the information even extending to the right to inspect the accounts (including documents) and question the external auditor (CIPFA, 1995, 214). This right of access even extends to potentially difficult areas such as documents under-pinning the accounts of sensitive competition services.

The structure of local government in Malaysia has been shown in the paper to be one which is not particularly conducive to change given the federal/ state relationship. It can also be argued that the different scale of local government between the two countries has contributed the present situation with regard to local authority financial reporting. As discussed earlier, local government in Malaysia does not cover the whole country while, at the same time, services provided by Malaysian local authorities are on a smaller scale than their UK counterparts.

As a general conclusion, it can be said that the comparative development of public sector accounting in the two counties studied is very much influenced by the level of interest expressed by central government and professional bodies. In other words, it can be said that the disclosure practices of local authorities are shaped by the complex and dynamic environment in which their reporting practices originated driven by a desire to see change in those financial reports and practices although, whether these developments are in the interests of accountability to users, is a matter left for further research.

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The Local Government Act 1933
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Accounts and Audit Regulations 1983
Local Authority Accounts (Scotland) Regulations 1985
Local Government and Housing Act 1989
Local Government Act 1992
Publication of Information (Standards and Performance) Direction 1992

*Malaysia*

Indian Legislation Act 1848
Municipal Rates Act 1848
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Town and Country Planning Act 1976
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Bridgend Borough Council
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Rhondda Borough Council
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# The UK Financial Reporting Framework

## Statutory Framework

Section 41 and 42 of the 1989 Local Government and Housing Act requires local authorities to use proper accounting practice in the preparation of accounts. This has been given a fuller definition in regulation 7 of the Accounts and Audit regulations 1983.

Section 66 of the LGHA defines proper practices as statutory regulations or instructions issued under any generally recognised accounting code. It also states in the event of any conflict between these items then statutory guidance has precedence.

Under Section 23 of the Local Government and Finance Act 1982 the Secretary of State has the power to prescribe the form, preparation and certification of local authority accounts and accounting statements. This led to the issue of then Accounts and Audit Regulations 1983.

The Accounts and Audit Regulations 1983 set general requirements to publish a summarised income and expenditure account for each fund that a LA is required to keep by statute, a summarised statement of capital expenditure by service, a consolidated balance sheet, any balances on funds not consolidated, a statement of sources and application of funds and finally, a statement of the main principles and any changes of practice which significantly affect the accounting statements.

The accounting requirements of Direct Service Organisations are set out in the Local Government Planning and Land Act 1980 and the Local Government Finance Act 1988. In summary these set target rates of return (or break-even) for these organisations.

Specific statutory practices on the treatment of capital expenditure are set out in circular 11/90 ‘Local Authority Capital Finance’.

## Non Statutory Proper Practices

Statements of Recommended Practice (SORPs) provides guidance on the application of statements of recommended accounting practice to local authorities.  CIPFA Code of  Practice on Local Authority Accounting in Great Britain  is essentially a SORP. Other CIPFA guidance includes advice on overhead allocation, the standard of revenue account and balance sheet and the new system of accounting for capital assets.

Code of Practice - Publication of Annual reports by Local Authorities. There is no statutory requirement to produce an annual Report. This guidance issued by the DOE covers in addition to the annual accounts such   information as comparisons by service with budget, capital expenditure by service, general statistics and key performance indicators.

Citizen’s charter - the audit commission has issued key indicators against which each local authority in England and Wales has to measure its performance.

It is the role of the external auditor to ensure that each local authority is meeting the requirements of  both statute and voluntary codes and that its accounts are thus presented fairly.

# The Malaysian Financial Reporting Framework

## Statutory Framework

Section 53 of the 1976 Local Government Act (LGA 76) requires local authorities to keep proper records and accounts, and record all the transaction incurred by the local authority, and that these records and accounts should be available for inpect at any time by any of the councillors of that local authority with the permission of Mayor or President. However, there is no further or fuller definition given to the above requirement in any other statute or code of practice.

Section 54(4) of the LGA 76 requires the publication of the annual reports. This reports comply with the State Authority requirements, but again, there is no detail given to what form and content of the annual reports should be prepared by the local authority.

Under Section 60 of the Local Government Act 1976, states that the Federal Government Auditor or other auditor appointed by the State Authority has to audit the accounts prepared by the local authority. The role of these auditor to ensure that each local authority is: (1) properly prepared their accounts; (2) kept a separate account for each transaction; (3) give a true and fair view of their financial position; and (4) provides a proper provision and treatment of their debts. (Section 60 of the LGA 76).

Specific statutory practices that currently adopted by the local authority is the Federal Treasury Cicular No. 15 'Guidance for Preparing and Presenting Annual Report and Financial Statement for Federal Statutory Bodies'. Eventhough, the Circular does not mandatory for local authority but there have been widely adopted by them.

## Non Statutory Proper Practices

There is no specific requirement to adopt any standards of accounting practice issued by the MIA and MACPA. Some of the local authority are voluntarily followed what have been suggested by the standards. For example, IAS 5 - Information to be Disclosed in Financial Statements, and IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance.

# The Comparison Between AAR 83 and Code Requirements

The table below shows how the Accounting Code of Practice meets the requirements of the AAR 83:

| Accounts and Audit Regulations | Accounting Code of Practice |
|---|---|
| 7(1) & (2) Authorities to which applicable | Essentially the same |
| 7(3) [a] Statement of accounts to include summarised statements of the income and expenditure of each fund or undertaking in relation to which the body is required by or by virtue of any statutory provision to keep a separate account. | The Code recommends inclusion of the General (or County) Fund Summary Revenue Account, the Housing Revenue Account, the Collection Fund, the Summary DSO Revenue and Appropriation Accounts and Superannuation Fund Revenue Account |
| [b] A summarised statement of capital expenditure differentiated in respect of different services and showing the source of finance of the year's total capital expenditure | The Code suggests that the spirit of this requirement is to met through the inclusion of summarised information in a footnote. This reflects the move towards disclosure of the types of assets acquired. |
| [c] A consolidated balance sheet<br><br>[d] Any balance sheet relating to a fund, the balances in respect of which are not shown in the consolidated balance sheet. | Following the changes made by the LGFA 88 and the LGHA 89 the Code suggests that separate balance sheets should be prepared (as appropriate) for the General (or County) Fund, Collection Fund and Superannuation Fund. Details of any as a footnote to the General (or County) Fund Balance Sheet. |
| [e] A statement of source and application of funds<br><br>Corresponding amounts for the immediately preceding period. | The Statement of Revenue and Capital Movements meets this requirement<br><br>The Code has the same requirement. |
| 7(5) Grouping together of statement | Code effectively supports this requirement. |
| 7(6) A statement of accounts shall include particulars of the main principles adopted in its compilation, and these particulars shall draw attention to any changes of practice which in the opinion of the body have a significant effect on the statement. | This is covered by the Code's requirement for a Statement of Accounting Policies |
| 7(7) Details of the main principles. | The Code includes an updated list of these requirements. |

*Appendix 3: Financial Information Disclosure*

# *The Disclosure Of Information in the Statement of Accounts*

**Exhibit 1:**
**Disclosure of Accounting Policies by the UK Local Authority**

| **Items to be Disclosed in Statement Of Accounting Policies** | **LA No. 1** | **LA No. 2** | **LA No.3** | **LA No. 4** | **LA No. 5** |
|---|---|---|---|---|---|
| Full explanation of all material reserves and provisions | 1 | 1 | 1 | 1 | 1 |
| Fixed assets (including valuation and charges basis) | 1 | 1 | 1 | 1 | 1 |
| Deferred charges | 1 | 0 | 1 | 1 | 1 |
| The treatment of the capital receipts arising from the sale of fixed assets | 1 | 1 | 1 | 1 | 1 |
| The treatment of Grants | 1 | 1 | 1 | 0 | 1 |
| The basis used in determining the amount of Interest charges | 1 | 1 | 1 | 1 | 1 |
| The basis used in providing for the redemption of debt | 1 | 0 | 1 | 0 | 1 |
| The treatment of leases, covenants and similar schemes | 1 | 1 | 0 | 0 | 1 |
| The basis significant estimates included in debtor and creditors | 1 | 1 | 1 | 1 | 0 |
| The basis of valuation of stocks and work in progress | 1 | 1 | 1 | 1 | 1 |
| Overheads | 1 | 1 | 1 | 1 | 1 |
| The basis of the provision of pensions | 1 | 1 | 1 | 1 | 1 |
| Investments | 1 | 1 | 1 | 1 | 1 |
| Deferred credit | 0 | 0 | 1 | 1 | 0 |
| Capital accounting/depreciation | 1 | 1 | 1 | 1 | 1 |
| **Total Number of Items Listed** | **15** | **15** | **15** | **15** | **15** |
| **Less: Not Applicable** | **0** | **0** | **0** | **0** | **0** |
| **Number of Items to be Complied** | **15** | **15** | **15** | **15** | **15** |
| **Number of Compliance** | **14** | **12** | **14** | **12** | **1** |
| **Percentange of Compliance** | **93.33** | **80.00** | **93.33** | **80.0** | **86.66** |

Exhibit 2: Items **Disclosed in Revenue Accounts by the UK Local Authority**

| **Items to be Disclosed in Revenue Account** | **LA No. 1** | **LA No. 2** | **LA No.3** | **LA No. 4** | **LA No. 5** |
|---|---|---|---|---|---|
| ***Content of the Statement*** | | | | | |
| Income according to activities or services rendered | 1 | 1 | 1 | 1 | 1 |
| Income according to source of income | 1 | 1 | 1 | 1 | 1 |
| Gross expenditure according to services | 1 | 1 | 1 | 1 | 1 |
| Net expenditure according to services | 1 | 1 | 1 | 1 | 1 |
| **Total Number of Items Listed** | 4 | 4 | 4 | 4 | 4 |
| **Less: Not Applicable** | 0 | 0 | 0 | 0 | 0 |
| **Number of Items to be Complied** | 4 | 4 | 4 | 4 | 4 |
| **Number of Compliance** | 4 | 4 | 4 | 4 | 4 |
| **Percentange of Compliance** | 100 | 100 | 100 | 100 | 100 |
| | | | | | |
| ***Format of the Statement*** | | | | | |
| Gross Expenditure, Income, Net Expenditure on each services | 1 | 1 | 1 | 1 | 1 |
| Appropriations | 1 | 1 | 1 | 1 | 1 |
| Source of Finance | 1 | 1 | 1 | 1 | 1 |
| **Total Number of Items Listed** | 3 | 3 | 3 | 3 | 3 |
| **Less: Not Applicable** | 0 | 0 | 0 | 0 | 0 |
| **Number of Items to be Complied** | 3 | 3 | 3 | 3 | 3 |
| **Number of Compliance** | 3 | 3 | 3 | 3 | 3 |
| **Percentange of Compliance** | 100 | 100 | 100 | 100 | 100 |
| | | | | | |
| ***Notes to the Statement*** | | | | | |
| Basis of recognition (accruals and cash basis) | 1 | 1 | 1 | 1 | 1 |
| Analysis of expenditure | 1 | 1 | 1 | 1 | 1 |
| Pensions | 1 | 1 | 0 | 1 | 1 |
| Income relating to prior years | 1 | 0 | 0 | 0 | 0 |
| **Total Number of Items Listed** | 4 | 4 | 4 | 4 | 4 |
| **Less: Not Applicable** | 0 | 0 | 0 | 0 | 0 |
| **Number of Items to be Complied** | 4 | 4 | 4 | 4 | 4 |
| **Number of Compliance** | 4 | 3 | 2 | 3 | 3 |
| **Percentange of Compliance** | 100 | 75 | 50 | 75 | 75 |

*Appendix 3: Financial Information Disclosure (Continued)*

**Exhibit 3: Items Disclosed in the Balance Sheet by the UK Local Authority**

| Items to be Disclosed in Balance Sheet | LA No. 1 | LA No. 2 | LA No.3 | LA No. 4 | LA No. 5 |
|---|---|---|---|---|---|
| ***Content of the Statement*** | | | | | |
| Fixed Assets | | | | | |
| a) Operational assets - book value | 1 | 1 | 1 | 0 | 1 |
| b) Non-operational assets - book value | 1 | 1 | 1 | 0 | 1 |
| c) Community assets - book value | 1 | 1 | 1 | 0 | 1 |
| d) Infrastructure assets - book value | 1 | 1 | 1 | 0 | 1 |
| e) Total fixed assets - book value | 1 | 1 | 1 | 1 | 1 |
| Deferred charges | 1 | 1 | 1 | 1 | 1 |
| Long term investments | 1 | 1 | 1 | 1 | 1 |
| Long term debtors | 1 | 1 | 1 | 1 | 1 |
| Current assets (less provisions) | 1 | 1 | 1 | 1 | 1 |
| Current liabilities | 1 | 1 | 1 | 1 | 1 |
| Long term borrowing | 1 | 1 | 1 | 1 | 1 |
| Deferred liabilities | 1 | 0 | 1 | 1 | 1 |
| Deferred credits - government grants | 1 | 1 | 1 | 1 | 1 |
| Reserve | 1 | 1 | 1 | 1 | 1 |
| **Total Number of Items Listed** | 14 | 14 | 14 | 14 | 14 |
| **Less: Not Applicable** | 0 | 0 | 0 | 0 | 0 |
| **Number of Items to be Complied** | 14 | 14 | 14 | 14 | 14 |
| **Number of Compliance** | 14 | 13 | 14 | 10 | 14 |
| **Percentange of Compliance** | 100 | 92.88 | 100 | 71.43 | 100 |
| | | | | | |
| ***Format of the Statement*** | | | | | |
| Fixed assets (classification of fixed assets) | 1 | 1 | 1 | 0 | 1 |
| Grand total of fixed assets | 1 | 1 | 1 | 1 | 1 |
| Assets less current liabilities | 1 | 1 | 1 | 1 | 1 |
| Assets less liabilities | 1 | 1 | 1 | 1 | 1 |
| Equity | 1 | 1 | 1 | 1 | 1 |
| **Total Number of Items Listed** | 5 | 5 | 5 | 5 | 5 |
| **Less: Not Applicable** | 0 | 0 | 0 | 0 | 0 |
| **Number of Items to be Complied** | 5 | 5 | 5 | 5 | 5 |
| **Number of Compliance** | 5 | 5 | 5 | 4 | 5 |
| **Percentange of Compliance** | 100 | 100 | 100 | 75 | 100 |
| | | | | | |
| ***Notes to the Statements*** | | | | | |
| Movement of fixed assets | 1 | 1 | 1 | 1 | 1 |
| Depreciation of fixed assets | 1 | 1 | 1 | 1 | 1 |
| Fixed assets revaluation | 1 | 1 | 1 | 1 | 1 |
| Long and short term liabilities | 1 | 1 | 1 | 1 | 1 |
| Long and short term investments | 1 | 0 | 1 | 1 | 1 |
| Deferred charges | 1 | 1 | 1 | 1 | 1 |
| Creditors and debtors | 1 | 0 | 1 | 1 | 1 |
| Deferred liabilities | 1 | 0 | 1 | 1 | 1 |
| Reserves | 1 | 1 | 1 | 1 | 1 |
| Associated and subsidiary companies | 1 | 1 | 1 | 1 | 0 |
| Trust funds | 1 | 1 | N/A | N/A | 1 |
| **Total Number of Items Listed** | 11 | 11 | 11 | 11 | 11 |
| **Less: Not Applicable** | 0 | 0 | 1 | 1 | 0 |
| **Number of Items to be Complied** | 11 | 11 | 10 | 10 | 11 |
| **Number of Compliance** | 11 | 8 | 10 | 10 | 10 |
| **Percentange of Compliance** | 100 | 72.73 | 100 | 100 | 90.91 |
| | | | | | |

*Appendix 3: Financial Information Disclosure (Continued)*

**Exhibit 4: Disclosure of Accounting Policies by Malaysian Local Authority**

| Items to be Disclosed in Statement Of Accounting Policies | LA No. 1 | LA No. 2 | LA No.3 | LA No. 4 | LA No. 5 |
|---|---|---|---|---|---|
| Full explanation of all material reserves and provisions | 1 | 1 | 1 | 1 | 1 |
| Fixed assets (including valuation and charges basis) | 1 | 1 | 1 | 1 | 1 |
| Deferred charges | 1 | 1 | 1 | 0 | 0 |
| The treatment of the capital receipts arising from the sale of fixed assets | 1 | 0 | 1 | 0 | 0 |
| The treatment of Grants | 1 | 1 | 1 | 0 | 1 |
| The basis used in determining the amount of Interest charges | 1 | 1 | 1 | 0 | 1 |
| The basis used in providing for the redemption of debt | 1 | 1 | 0 | 1 | 1 |
| The treatment of leases, covenants and similar schemes | 0 | 0 | 0 | 1 | 1 |
| The basis significant estimates included in debtor and creditors | 1 | 1 | 1 | 1 | 1 |
| The basis of valuation of stocks and work in progress | 1 | 1 | 1 | 1 | 0 |
| Overheads | 0 | 0 | 0 | 0 | 0 |
| The basis of the provision of pensions | 0 | 0 | 0 | 0 | 0 |
| Investments | 1 | 1 | 1 | 1 | 1 |
| Deferred credit | N/A | 1 | 1 | N/A | N/A |
| Capital accounting/depreciation | 1 | 1 | 1 | 1 | 1 |
| **Total Number of Items Listed** | **15** | **15** | **15** | **15** | **15** |
| **Less: Not Applicable** | **1** | **0** | **0** | **1** | **1** |
| **Number of Items to be Complied** | **14** | **15** | **15** | **14** | **14** |
| **Number of Compliance** | **11** | **11** | **11** | **8** | **9** |
| **Percentange of Compliance** | **78.57** | **73.33** | **73.33** | **57.14** | **64.28** |

Exhibit 5: **Items Disclosed in Revenue Accounts by Malaysian Local Authority**

| Items to be Disclosed in Revenue Account | LA No. 1 | LA No. 2 | LA No.3 | LA No. 4 | LA No. 5 |
|---|---|---|---|---|---|
| ***Content of the Statement*** | | | | | |
| Income according to activities or services rendered | 0 | 0 | 0 | 0 | 0 |
| Gross expenditure according to services | 0 | 0 | 0 | 0 | 0 |
| Net expenditure according to services | 0 | 0 | 0 | 0 | 0 |
| **Total Number of Items Listed** | 3 | 3 | 3 | 3 | 3 |
| **Less: Not Applicable** | 0 | 0 | 0 | 0 | 0 |
| **Number of Items to be Complied** | 3 | 3 | 3 | 3 | 3 |
| **Number of Compliance** | 0 | 0 | 0 | 0 | 0 |
| **Percentange of Compliance** | 0 | 0 | 0 | 0 | 0 |
| | | | | | |
| ***Format of the Statement*** | | | | | |
| Gross Expenditure, Income, Net Expenditure on each services | 0 | 0 | 0 | 0 | 0 |
| Appropriations | 0 | 0 | 0 | 0 | 0 |
| Source of Finance | 1 | 1 | 1 | 1 | 1 |
| **Total Number of Items Listed** | 3 | 3 | 3 | 3 | 3 |
| **Less: Not Applicable** | 0 | 0 | 0 | 0 | 0 |
| **Number of Items to be Complied** | 3 | 3 | 3 | 3 | 3 |
| **Number of Compliance** | 1 | 1 | 1 | 1 | 1 |
| **Percentange of Compliance** | 33.33 | 33.33 | 33.33 | 33.33 | 33.33 |
| | | | | | |
| ***Notes to the Statement*** | | | | | |
| Basis of recognition (accruals and cash basis) | 1 | 1 | 1 | 1 | 1 |
| Analysis of expenditure | 1 | 1 | 1 | 1 | 1 |
| Pensions | 0 | 0 | 0 | 0 | 0 |
| Income relating to prior years | 1 | 1 | 1 | 1 | 1 |
| **Total Number of Items Listed** | 4 | 4 | 4 | 4 | 4 |
| **Less: Not Applicable** | 0 | 0 | 0 | 0 | 0 |
| **Number of Items to be Complied** | 4 | 4 | 4 | 4 | 4 |
| **Number of Compliance** | 3 | 3 | 3 | 3 | 3 |
| **Percentange of Compliance** | 75 | 75 | 75 | 75 | 75 |

*Appendix 3: Financial Information Disclosure (Continued)*

**Exhibit 6: tems Disclosed in the Balance Sheet by Malaysian Local Authority**

| Items to be Disclosed in Balance Sheet | LA No. 1 | LA No. 2 | LA No.3 | LA No. 4 | LA No. 5 |
|---|---|---|---|---|---|
| ***Content of the Statement*** | | | | | |
| Fixed Assets | | | | | |
| a) Operational assets - book value | 0 | 0 | 0 | 0 | 0 |
| b) Non-operational assets - book value | 0 | 0 | 0 | 0 | 0 |
| c) Community assets - book value | 0 | 0 | 0 | 0 | 0 |
| d) Infrastructure assets - book value | 0 | 0 | 0 | 0 | 0 |
| e) Total fixed assets - book value | 1 | 1 | 1 | 1 | 1 |
| Deferred charges | 0 | 0 | 1 | 0 | 0 |
| Long term investments | n/a | n/a | n/a | n/a | n/a |
| Long term debtors | n/a | n/a | n/a | n/a | n/a |
| Current assets (less provisions) | 1 | 1 | 1 | 1 | 1 |
| Current liabilities | 1 | 1 | 1 | 1 | 1 |
| Long term borrowing | 0 | 0 | 0 | 0 | 0 |
| Deferred liabilities | n/a | n/a | n/a | n/a | n/a |
| Deferred credits - government grants | 0 | 0 | 0 | 0 | 0 |
| Reserve | 1 | 1 | 1 | 1 | 1 |
| **Total Number of Items Listed** | 14 | 14 | 14 | 14 | 14 |
| **Less: Not Applicable** | 3 | 3 | 3 | 3 | 3 |
| **Number of Items to be Complied** | 11 | 11 | 11 | 11 | 11 |
| **Number of Compliance** | 4 | 4 | 5 | 4 | 4 |
| **Percentange of Compliance** | 36.36 | 36.36 | 45.45 | 36.36 | 36.36 |
| | | | | | |
| ***Format of the Statement*** | | | | | |
| Fixed assets (classification of fixed assets) | 0 | 0 | 0 | 0 | 0 |
| Grand total of fixed assets | 1 | 1 | 1 | 1 | 1 |
| Assets less current liabilities | 1 | 1 | 1 | 1 | 1 |
| Assets less liabilities | 1 | 1 | 1 | 1 | 1 |
| Equity | 1 | 1 | 1 | 1 | 1 |
| **Total Number of Items Listed** | 5 | 5 | 5 | 5 | 5 |
| **Less: Not Applicable** | 0 | 0 | 0 | 0 | 0 |
| **Number of Items to be Complied** | 5 | 5 | 5 | 5 | 5 |
| **Number of Compliance** | 4 | 4 | 4 | 4 | 4 |
| **Percentange of Compliance** | 80 | 80 | 80 | 80 | 80 |
| | | | | | |
| ***Notes to the Statements*** | | | | | |
| Movement of fixed assets | 1 | 1 | 1 | 1 | 1 |
| Depreciation of fixed assets | 1 | 1 | 1 | 1 | 1 |
| Fixed assets revaluation | 0 | 0 | 0 | 0 | 1 |
| Long and short term liabilities | 1 | 1 | 1 | 1 | 1 |
| Long and short term investments | 1 | 1 | 1 | 1 | 1 |
| Deferred charges | 1 | 1 | 1 | 1 | 1 |
| Creditors and debtors | 1 | 1 | 1 | 1 | 1 |
| Deferred liabilities | 0 | 0 | 1 | 1 | 1 |
| Reserves | 0 | 0 | 1 | 1 | 1 |
| Associated and subsidiary companies | 0 | 0 | 0 | 0 | 1 |
| Trust funds | n/a | n/a | n/a | n/a | n/a |
| **Total Number of Items Listed** | 11 | 11 | 11 | 11 | 11 |
| **Less: Not Applicable** | 1 | 1 | 1 | 1 | 1 |
| **Number of Items to be Complied** | 10 | 10 | 10 | 10 | 10 |
| **Number of Compliance** | 6 | 6 | 8 | 8 | 10 |
| **Percentange of Compliance** | 60 | 60 | 80 | 80 | 100 |
| | | | | | |

*Appendix 4a: Presentation Format of the Revenue Accounts*

# Format of Revenue Accounts Prepared by the Two Countries.

**United Kingdom**

**Revenue Account**

| 19X0/X1 Net Expenditure £000 | See Note | | 19X2/X3 Gross Expenditure £000 | Income £000 | Net Expenditure £000 |
|---|---|---|---|---|---|
| xx | | Highways | xx | xx | xx |
| xx | | Transportation | xx | xx | xx |
| xx | | Schools | xx | xx | xx |
| xx | | Other Education | xx | xx | xx |
| xx | | Libraries | xx | xx | xx |
| xx | | Museums & Art Galleries | xx | xx | xx |
| xx | | Social Services | xx | xx | xx |
| xx | | Coast Protection | xx | xx | xx |
| xx | | Council Election | xx | xx | xx |
| xx | | Leisure | xx | xx | xx |
| xx | | Planning and Development | xx | xx | xx |
| xx | | Registration births Deaths, Marriages | xx | xx | xx |
| xx | | Waste Disposal | xx | xx | xx |
| xx | | Fire Services | xx | xx | xx |
| xx | | Magistrates Courts | xx | xx | xx |
| xx | | Probation Service | xx | xx | xx |
| xx | | Coroner's Service | xx | xx | xx |
| xx | | Civil Defence | xx | xx | xx |
| xx | | Trading Standards | xx | xx | xx |
| xx | | Other Services | xx | xx | xx |
| xx | | *Net Cost General Fund Service* | xx | xx | xx |
| xx | | HRA | xx | xx | xx |
| xx | | *Net Cost of Services* | xx | xx | xx |
| xx | | Net Surplus on Statutory DLOs & DSOs | | | xx |
| xx | | Net Surplus of trading undertakings | | | xx |
| xx | | Transfer to/(from) AMRA | | | xx |
| xx | | Amount due to precepting authorities | | | xx |
| xx | | Interest & Income Investment | | | xx |
| xx | | *Net Operating Expenditure* | | | xx |
| | | **Appropriations** | | | |
| xx | | HRA surplus transferred to HRA balances | | | xx |
| xx | | Contributions to/(from) earmarked reserves | | | xx |
| xx | | Contributions to/(from) capital reserve | | | xx |
| xx | | Transfers from the collection funds | | | xx |
| xx | | Amount to be met from government grants and local taxation | | | xx |
| | | **Sources of Finance** | | | |
| xx | | Council Taxpayers | | | xx |
| xx | | General Government Grants | | | xx |
| xx | | Non-domestic rate Income | | | xx |
| xx | | Net General Fund (surplus)/deficit | | | xx |
| xx | | Balance on general fund brought forward | | | xx |
| xx | | Balance on general fund carried forward | | | xx |

**Malaysia**

**Income and Expenditure Account**

| | Note | 19X1 RM000 | 19X2 RM000 |
|---|---|---|---|
| Income: | | | |
| *Tax Sources* | | | |
| Rates | | xx | xx |
| Contributions in aid of rates | | xx | xx |
| *Non-Tax Income* | | | |
| Licences and Permits | | xx | xx |
| Service Receipts | | xx | xx |
| Sale of Goods | | xx | xx |
| Rental | | xx | xx |
| Interest and Dividend | | xx | xx |
| Compounds and Fines | | xx | xx |
| Contributions received | | xx | xx |
| Miscellaneous Sales | | xx | xx |
| Grants | | xx | xx |
| Other | | | |
| Gain on disposal of fixed assets | | xx | xx |
| Gain on disposal of community assets | | xx | xx |
| Estimated profit on development projects-in-progress | | xx | xx |
| Gain on sale of investments | | xx | xx |
| Expenditure: | | | |
| Salaries | | xx | xx |
| Fixed Allowances | | xx | xx |
| Contributions for Employees | | xx | xx |
| Overtime Allowances | | xx | xx |
| Communication and Utilities | | xx | xx |
| Supplies and materials | | xx | xx |
| Rentals | | xx | xx |
| Travelling and Subsistence | | xx | xx |
| Maintenance and Repair Fixed assets | | xx | xx |
| Maintenance and Repair of Community assets | | xx | xx |
| Services purchased, festival, hospitalities | | xx | xx |
| Local Contributions | | xx | xx |
| Interest on Borrowings | | xx | xx |
| Refunds of revenue receipts | | xx | xx |
| Provision of bad and doubtful accounts | | xx | xx |
| Depreciation of Assets | | xx | xx |
| Loss on disposal of fixed assets | | xx | xx |
| Loss on disposal of community assets | | xx | xx |
| Loss on disposal of investment | | xx | xx |
| Net Surplus/(Deficit) for the year | | xx | xx |
| Less: Transfer to Motor Vehicle Revolving Fund | | xx | xx |
| Accumulated Funds Brought Forward | | xx | xx |
| Accumulated Funds Carried Forward | | xx | xx |

*Appendix 4b: Presentation Format of the Balance Sheet*

## Format of the Balance Sheet Prepared by UK and Malaysian Local Authorities

**United Kingdom**
**Balance Sheet**

| **19X0/19X1** | | **19X1/19X2** | **Notes** |
|---|---|---|---|
| 000 | | 000 | |
| | **Fixed Assets** | | 1,3, |
| | Operational Assets | | 4,5,6 |
| xxx | -council dwelling | xxx | |
| xxx | -other land & Building | xxx | |
| xxx | -vehicles, plants & equipment | xxx | |
| xxx | Infrastructure Assets | xxx | |
| xxx | Community Assets | xxx | |
| | **Non-operational Assets** | | |
| xxx | -investment properties | xxx | |
| xxx | Deferred Charges | xxx | 2 |
| xxx | Long-term Investments | xxx | |
| xxx | Long-term Debtor | xxx | |
| *xxx* | *Total Long-term Assets* | *xxx* | |
| | **Current Assets** | | |
| xxx | -stock & work-in-progress | xxx | |
| xxx | -debtors | xxx | |
| xxx | investments | xxx | |
| xxx | -cash and bank | xxx | |
| | **Current Liabilities** | | |
| xxx | -short-term borrowings | xxx | 7 |
| xxx | -creditors | xxx | |
| xxx | bank overdraft | xxx | |
| *xxx* | *Total Assets Less Current Liabilities* | *xxx* | |
| xxx | Long-term Borrowings | xxx | |
| xxx | Deferred Liabilities | xxx | |
| xxx | Government Grants -deferred account | | |
| xxx | Provisions | xxx | |
| *xxx* | *Total Assets less Liabilities* | *xxx* | |
| xxx | Fixed Asset Restatement Reserve | xxx | 8 |
| xxx | Capital Financing Reserve | xxx | 9 |
| xxx | Usable Capital Receipts Reserve | xxx | 10 |
| xxx | Earmarked Reserves | xxx | |
| | **Balances** | | 11, 12 |
| xxx | -general fund | xxx | |
| xxx | -housing revenue account | xxx | |
| xxx | -DSOs | xxx | |
| xxx | Total Equity | xxx | |

**Malaysia**
**Balance Sheet**

| **19X0/19X1** | | **19X1/19X2** | **Notes** |
|---|---|---|---|
| 000 | | 000 | |
| xxx | **Fixed Assets** | xxx | 3 |
| | **Current Assets** | | |
| xxx | -stocks | xxx | 4 |
| xxx | -debtors | xxx | 5 |
| xxx | -grants receivable | xxx | |
| xxx | -fixed deposits | xxx | 6 |
| xxx | -cash and bank | xxx | |
| | **Current Liabilities** | | |
| xxx | -creditors | xxx | 7 |
| xxx | -grants received in advanced | xxx | 8 |
| xxx | -term loans | xxx | 9 |
| xxx | -bank overdraft | xxx | |
| xxx | Net Current Assets | xxx | |
| **Represented by:** | | | |
| xxx | Accumulated Funds | xxx | |
| xxx | Reserves | xxx | 10 |
| xxx | Development Grants | xxx | |
| xxx | Development Grants Motor Vehicle Revolving Loan Fund | xxx | |
| xxx | Term Loans | xxx | |