
PART I**THE AUDIT OF FEDERAL GOVERNMENT
FINANCIAL STATEMENTS****PART II****FINANCIAL ANALYSIS ON FEDERAL GOVERNMENT**

Main Points**What we
examined?**

- Under Subsection 16(1) of Financial Procedure Act 1957, the Financial Authority of the Federal Government is required to prepare an annual financial statement as soon as practicable after the end of every financial year. The Financial Statements of the Federal Government was prepared by the Accountant General of Malaysia using a modified cash basis of accounting.
- The Financial Statements comprise of the Statement of Financial Position as at 31 December 2021, Statement of Cash Receipts and Payments, Statement of Financial Performance, Statement of Memorandum Accounts, and Notes to the Financial Statements.
- The audit was conducted in accordance with Paragraph 5(1)(a) Audit Act 1957 which requires the Auditor General to conduct an audit of federal and states government's Account.

**Why it is
important?**

- The audit of the Financial Statements of Federal Government was conducted to form an opinion whether the financial statements show a true and fair view and to examine whether the accounting records are adequately maintained and updated.
- The audit of Financial Statements of Federal Government was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI) and the Auditing Guidelines of Financial Statements of Federal Government.

**What we
found?**

PART I:

The Audit of Financial Statements of the Federal Government for the Year Ended 31 December 2021

- In summary, the Financial Statements of the Federal Government give a true and fair view of the financial position of the Federal Government as at 31 December 2021, and of its financial performance and its cash flows for the year then ended, and the accounting records are adequately maintained and updated.
- **Emphasis of Matter**

Without modifying the audit opinion, the matters highlighted are as below:

- Note 6 on Consolidated Loan Account, Note 7(a)(i) on Development Fund and Note 10(a) on Federal Debt. Gross borrowings raised for the year 2021 was RM217.201 billion, an increase of RM22.646 billion or 11.6% compared to RM194.555 billion in 2020. Out of this RM217.201 billion, RM113.764 billion or 52.4% was utilised for principal repayments, while RM62.317 billion or 28.7% was transferred to the Development Fund. A total of RM12.612 billion or 20.2% from the amount transferred was utilised for financing Private Finance Initiatives Liabilities and commitments on guarantees. The development expenditures of RM8.711 billion or 14% was a reclassification from operating expenditures, an increase of RM5.935 billion or 213.8% compared to 2020. The remaining balance transferred of RM40.994 billion was utilised for development projects, with a decrease in percentage of 65.8% from 77.3% in 2020.

Fund from source of borrowings which was transferred to the Development Fund should be optimised to finance physical development projects. This will contribute to the formation of gross fixed capital that has a high multiplier effect which can enhance the national economic growth.

The gross borrowings of RM217.201 billion have increased the Federal Government Debt to RM979.814 billion or 63.4% to Gross Domestic Product in 2021, compared to RM879.560 billion or 62% to Gross Domestic Product in 2020.

- Note 7(a)(iii) on Miscellaneous Government Trust Fund. The closing balance of Miscellaneous Government Trust Funds was included a balance of Clearance Account for Premium/Discount on Malaysian Government Securities amounted to RM10.904 billion. A net premium amounted to RM3.120 billion in the Consolidated Loan Account for the year 2021 was adjusted to the Clearance Account for Premium/Discount on Malaysian Government Securities. Out of this net premium amount, RM1.800 billion was recognised as Non-Tax Revenue and was transferred to Consolidated Revenue Account. The policy of recognising net premium as Non-Tax Revenue was based on revenue collection projection, and percentage of Charges on Account of Public Debt. This was different from revenue recognition principle in modified cash basis accounting, where revenue is recognised upon received.

PART II:

Financial Analysis on Federal Government

- Financial Performance of Federal Government

Overall, the financial performance of the Federal Government for the year 2021 as compared to 2020 as per **Table 1**.

TABLE 1
FINANCIAL PERFORMANCE
FOR THE YEAR 2021 AS COMPARED TO 2020

DETAILS	YEAR		DIFFERENCE	
	2021 (RM Billion)	2020 (RM Billion)	RM BILLION	%
Revenues	233.752	225.075	8.677	3.9
(-) Operating Expenditures*	(231.516)	(224.600)	6.916	3.1
Surplus	2.236	0.475	1.761	371.0
(+) Miscellaneous Receipts	0.992	1.259	(0.267)	(21.2)
Total	3.228	1.734	1.494	86.2
(-) Development Expenditures	(64.257)	(51.360)	12.897	25.1
(-) Covid-19 Expenditures	(37.711)	(38.019)	(0.308)	(0.8)
(Deficit)	(98.740)	(87.645)	11.095	12.7
Deficit to GDP Ratio	6.4%	6.2%		
Gross Borrowings	217.201	194.555	22.646	11.6
Federal Debt	979.814	879.560	100.254	11.4
Federal Debt to GDP Ratio	63.4%	62.0%		
Financial Liabilities	318.001	307.229	10.772	3.5
Federal Liabilities	1,297.815	1,186.789	111.026	9.4
Federal Liabilities to GDP Ratio	84.0%	83.7%		

Source: Financial Statements of Federal Government Year 2021

Notes: 1. Gross Domestic Product (GDP) for 2021 was RM1,545.372 billion (2020: RM1,418.000 billion)

2. Federal Statutory Debt to GDP Ratio in 2021 was 59.7%, below the statutory limit of 65% to GDP

3. *Excluding transfer of surplus amounted to RM2.236 billion to the Development Fund

- Revenue**

- The total revenue of Federal Government in 2021 was at RM233.752 billion, which showed an increase of RM8.677 billion or 3.9% compared to 2020 which recorded at RM225.075 billion.

- The Federal Government's revenues consisted of RM173.703 billion in Tax Revenue or 74.3%, RM51.122 billion in Non-Tax Revenue or 21.9%, RM8.411 billion in Non-Revenue Receipts or 3.6% and RM0.516 billion or 0.2% in Revenue from Federal Territories.
 - Tax Revenue consisted of Direct Taxes and Indirect Taxes amounted to RM173.703 billion, an increase of RM19.305 billion or 12.5% compared to RM154.398 billion in 2020. A significant increase of RM29.764 billion in corporate tax which amounted to RM79.829 billion was contributed by adjustment in monthly tax instalment and high collection of deferred taxes resulted from market recovery as compared to 2020.
 - In contrast, individual income tax recorded a significant reduction of RM11.902 billion or 30.6% to RM27.051 billion as compared to RM38.953 billion in 2020. The implementation of Movement Control Order had affected the employment sector due to retrenchment, unpaid leave as well as reduction in salaries, allowances and other benefits.
 - Non-Tax Revenue decreased by RM10.925 billion or 17.6% to RM51.122 billion in 2021, compared to RM62.047 billion in 2020. Interest and return on investment recorded a significant reduction of RM11.049 billion or 24% to RM35.018 billion. This was due to lower dividends received from Petroliam Nasional Berhad amounting to RM25 billion as compared to RM34 billion in 2020. Net premium from the issuance of Malaysian Government Securities transferred to Consolidated Revenue Account also decreased by RM4.246 billion or 70.2% to RM1.800 billion as compared to RM6.046 billion in 2020.
- **Operating Expenditures**
 - The final budget approved for operating expenditures was RM226.821 billion, while the operating expenditures incurred was RM231.516 billion. The surplus amount of RM2.236 billion in the Consolidated Revenue Account was transferred to the

Development Fund, which made the actual operating expenditures amounted to RM233.752 billion.

- Ministry of Finance recorded the highest operating expenditure among the ministries amounted to RM73.049 billion or 31.3% from the Federal Government's total operating expenditures in 2021, an increase of RM10.221 billion or 16.3% as compared to RM62.828 billion in 2020.
- Based on the categories of expenditure, grants and fixed charges was recorded as the highest expenditure amounted to RM121.579 billion or 52% of the total operating expenditures.
- The increase in grants and fixed charges included financial costs of RM38.580 billion (2020: RM35.155 billion), Pensions, Retirement Allowances and Gratuities amounted to RM28.595 billion (2020: RM27.033 billion) and subsidies programme amounted to RM13.134 billion (2020: RM4.659 billion). However, the expenditures for scholarship and education assistance decreased by RM1.071 billion or 68.2% to RM0.499 billion due to reclassification of operating expenditure to development expenditure.
- Emolument expenditure was RM85.854 billion or 36.7% of the total operating expenditures in 2021. Out of this, RM75.086 billion or 87.5% was incurred by Ministry of Education (RM39.464 billion), Ministry of Health (RM18.042 billion), Ministry of Home Affairs (RM9.765 billion) and Ministry of Defence (RM7.815 billion).
- Payments made under AP58(a) increased by RM1.175 billion or 132.3% to RM2.063 billion in 2021 as compared to RM0.888 billion in 2020. A sum of RM617.98 million or 30% was paid after April 2021.

- **Charges on Account of Public Debt**

- Charges on Account of Public Debt (interests, dividends and other charges) charged to Vot T.13 increased by RM3.574 billion or 10.4% to RM38.069 billion in 2021.
- The percentage of this expenditure category over revenue collection of RM233.752 billion in 2021 was 16.3% compared to 15.3% in 2020.
- However, the principal repayment of matured debt amounted to RM113.764 billion was excluded from the operational allocation's budget, instead it was paid directly from the Consolidated Loan Account.

- **Development Expenditures**

- Overall, the total development expenditures of ministries and federal departments was RM64.257 billion or 105.5% as compared to the approved allocation.
- Included in the development expenditures of RM64.257 billion was a reclassification from operating expenditures amounted to RM8.711 billion. This reclassification consisted of 41 development project codes in 11 ministries. The Ministry of Health recorded the highest reclassification expenditures amounted to RM4.366 billion, followed by the Ministry of Housing and Local Government amounted to RM1.404 billion.

- **Covid-19 Fund Expenditures**

- The financing limit for Covid-19 Funds (KWC) has been increased from RM45 billion to RM110 billion through the gazette of Temporary Measures for Government Financing (Coronavirus Disease 2019 (Covid-19)) (Amendment) Act 2021 or Act A1635.
- KWC's expenditures was RM37.711 billion. The highest expenditure consisted of cash assistance, subsidies and grants to targeted group. This involved Bantuan Prihatin Nasional;

Wage Subsidy, Job Retention and Workers' Hiring Incentive, and Training Assistance; as well as PRIHATIN SME Grant amounted to RM28.306 billion or 75.1% from the total KWC's expenditures in 2021.

- **Deficit and New Borrowings**

- The Federal Government's deficit in 2021 was recorded at RM98.740 billion or 6.4% to GDP. The deficit was funded through net borrowings of RM103.437 billion.
- Gross borrowings received in 2021 increased by RM22.646 billion or 11.6% to RM217.201 billion as compared to RM194.555 billion in 2020, primarily due to higher principal repayment of matured debts amounted to RM113.764 billion as compared to RM98.058 billion in 2020.
- A sum of RM62.317 billion from the gross borrowings was transferred to the Development Fund, an increase of RM13.746 billion or 28.3% as compared to RM48.571 billion in 2020. The increase was partly due to amortisation of Private Finance Initiatives Liabilities (PFI Liabilities) and commitment on guarantees amounted to RM12.612 billion, an increase of RM4.347 billion or 52.6% compared to RM8.265 billion in 2020.
- A total of RM38 billion was transferred to Covid-19 Fund.
- Overall, a sum of RM126.376 billion or 58.2% from RM217.201 billion of gross borrowings for the year 2021 was utilised for principal repayment of matured debts amounted to RM113.764 billion, amortisation of PFI Liabilities amounted to RM2.965 billion and Government Guaranteed Loans amounted to RM9.647 billion. This represented an increase compared to RM106.323 billion or 54.6% of gross borrowings in 2020.

- **Federal Debt**

- The Federal Debt reported in the Financial Statement of Federal Government consists of debts raised directly by the Federal Government, excluding debts raised by other Government agencies and companies.
- Federal Debt stood at RM979.814 billion, increased by RM100.254 billion or 11.4% as compared to 2020 which was RM879.560 billion. Debt to GDP ratio was at 63.4%.
- Section 2 of Act A1635 stated that the statutory limit on Federal Debt provided under subsection 3(1), Act 830 has been increased from a ratio of 60% to 65% to GDP, effective from 18th November 2021 until 31th December 2022. The Federal Statutory Debt consists of Islamic Treasury Bills, Government Investment Issue, Sukuk Prihatin and Malaysian Government Securities. These four debt instruments in 2021 stood at RM922.484 billion or 59.7% to GDP, which was below the statutory limit of 65% to GDP.
- The Federal Debt consisted of domestic debts amounted to RM950.084 billion or 97% and external debts amounted to RM29.730 billion or 3%. Domestic debts increased by RM98.800 billion or 11.6%, whereas external debts also increased by RM1.455 billion or 5.1%.
- The Federal Debt of RM276.991 billion or 28.3% will mature within three years, while a total of RM397.696 billion or 40.6% will mature between four to 10 years and the remaining amount of RM305.127 billion or 31.1% will mature between 11 to 30 years.

- **Financial Liabilities**

- The Financial Liabilities comprises of PFI Liabilities, Financial Commitments and Other Liabilities amounted to RM318.001 billion in 2021 as compared to RM307.229 billion in 2020.

- PFI Liabilities stood at RM35.574 billion in 2021, a decrease of RM1.460 billion or 3.9% compared to RM37.034 billion in 2020. During the year, PFI Liabilities had been restructured which resulted as follows:
 - extension of financing period until 2036 compared to the original financing period up until 2028;
 - capitalisation of accrued interest amounted to RM0.335 billion; and
 - additional borrowing interest of RM4.458 billion.
- Financial Commitments of the Federal Government in 2021 amounted to RM282.276 billion, increased by RM12.253 billion or 4.5% as compared to RM270.023 billion in 2020. The commitments showed the obligations of the Federal Government in remitting to relevant parties as follows:
 - commitment on guarantees: RM229.392 billion (2020: RM216.842 billion)
 - finance lease commitments: RM37.203 billion (2020: RM37.572 billion)
 - tax refund commitments: RM14.683 billion (2020: RM14.635 billion)
 - compensation commitments: RM0.998 billion (2020: RM0.974 billion)
- The amortisation of PFI Liabilities and commitment on guarantees in 2021 amounted to RM13.061 billion was utilised from operational allocation of RM0.449 billion and development allocation of RM12.612 billion.
- Other Liabilities consists of Notes Payable, Unclaimed Securities and the Central Depository Account amounted to RM150.95 million, decreased by RM21.52 million or 12.5% as compared to RM172.47 million in 2020.

- **Federal Liabilities**

- The Federal Liabilities which consists of Federal Debt and Financial Liabilities stood at RM1.298 trillion, increased by RM111.026 billion or 9.4% in 2021 as compared to RM1.187 trillion in 2020. The Federal Liability ratio to GDP in 2021 was 84% as compared to 83.7% in 2020.
- Overall, the total expenditures on Federal Liabilities in 2021 was RM164.894 billion which comprised of principal repayment of matured debts (RM113.764 billion); payment on interest, dividends and other debt charges (RM38.069 billion), amortisation of PFI Liabilities (RM2.965 billion) as well as commitment on guarantees (RM10.096 billion).

- **Federal Assets**

- The value of Federal Assets in 2021 was RM146.907 billion, which comprised of Investments and Account Receivables.
- Investments or equity holdings in companies, statutory bodies and international agencies was RM33.862 billion. The Federal Government's Account Receivables was RM113.045 billion, which comprised of Recoverable Loans and Advances as well as Other Receivables.

**What do we
recommend?**

- The Audit recommends the following:
 - strengthening public financial discipline for effective operational spending, to enhance sustainable revenue generation and monitoring the commitments towards repayment of matured debts. These measures are important to ensure that the surplus of net operating balances are sufficient to finance the development expenditures and to lessen dependency on new borrowings;
 - enhance monitoring of payments on AP58(a), specifically on claims dan applications received after April on the following year. Those claims and applications can be considered as

payments under AP59. This is to ensure that current year allocation can be optimised in accordance with the approved budget;

- ensure that the Development Fund be used to finance physical development project which will create high multiplier effect that can enhance economic activities. More over, close monitoring should be implemented towards the performance of development projects as any unutilise allocation would be a cost to the Government; and
- ensure any policies formulated in relation to the accounting and reporting of financial statement must adhered to the Government Accounting Standards.