
PART I

**THE AUDIT OF FINANCIAL STATEMENTS OF THE
FEDERAL GOVERNMENT**

PART II

FINANCIAL ANALYSIS ON THE FEDERAL GOVERNMENT

Main Points

**What we
examined?**

- Under Subsection 16(1) of Financial Procedure Act 1957 [Act 61], 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 2022, 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 [Act 62] 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 the 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 the Federal Government was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI) and the Auditing Guidelines of Financial Statements of the Federal Government.

**What we
found?**

**PART I:
The Audit of Financial Statements of the Federal Government
for the Year Ended 31 December 2022**

- 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 2022, and of its financial performance and its cash flows for the year then ended, and the accounting records are adequately maintained and updated.

- **Other Matters**

The Financial Authority shall ensure that any transactions and financial policies made, that have an effect on the reporting of Financial Statements of the Federal Government shall be implemented in accordance with Government Accounting Standards and financial regulations in force.

PART II:

Financial Analysis on the Federal Government

- **Financial Performance of the Federal Government**

Overall, the financial performance of the Federal Government for the year 2022 as compared to 2021 as per **Table 1**.

TABLE 1
FINANCIAL PERFORMANCE
FOR THE YEAR 2022 AS COMPARED TO 2021

DETAILS	YEAR		DIFFERENCE	
	2022 (RM Billion)	2021 (RM Billion)	RM BILLION	%
Revenues	294.357	233.752	60.605	25.9
Miscellaneous Receipts	1.407	0.992	0.415	41.8
Total Receipts	295.764	234.744	61.020	26.0
Expenditures:				
Operating Expenditures (Before transfer of surplus to the Development Fund)	292.693	231.516	61.177	26.4
Development Expenditures	71.574	64.257	7.317	11.4
Covid-19 Expenditures	30.979	37.711	(6.732)	(17.9)
Total Expenditures	395.246	333.484	61.762	18.5
Deficit	(99.482)	(98.740)	0.742	0.8
Deficit to GDP Ratio	5.6%	6.4%		
Federal Debt	1,079.591	979.814	99.777	10.2
Federal Debt to GDP Ratio	60.3%	63.3%		
Financial Liabilities	319.571	325.232	(5.661)	(1.7)
Total Federal Liabilities	1,399.162	1,305.046	94.116	7.2
Federal Liabilities to GDP Ratio	78.1%	84.3%		

Source: Financial Statements of the Federal Government Year 2022

Nota: 1. Gross Domestic Product (GDP) for 2022 was RM1,791.358 billion
(2021: RM1,548.898 billion)

2. Federal Statutory Debt to GDP Ratio in 2022 was 57.6%, below the statutory limit of 65% to GDP

- **Revenue**

- The total revenue of the Federal Government in 2022 was at RM294.357 billion, an increase of RM60.605 billion or 25.9% compared to RM233.752 billion in 2021.
- The Federal Government's revenues consisted of RM208.765 billion in Tax Revenue or 70.9%, RM79.609 billion in Non-Tax Revenue or 27.1%, RM5.296 billion in Non-Revenue

Receipts or 1.8% and RM0.687 billion or 0.2% in Revenue from Federal Territories.

- Tax Revenue consisted of Direct Tax and Indirect Tax amounted to RM208.765 billion, an increase of RM35.062 billion or 20.2% compared to RM173.703 billion in 2021. The significant increase involved the collection of petroleum income tax by RM11.851 billion to RM23.421 billion, corporate tax increased by RM2.304 billion to RM82.133 billion and individual income tax increased by RM6.725 billion to RM33.776 billion.
 - Furthermore, Non-Tax Revenue had increased by RM28.487 billion or 55.7% to RM79.609 billion in 2022, compared to RM51.122 billion in 2021. Interest and return on investment has shown a significant increase of RM23.205 billion or 66.3% to RM58.223 billion. This was due to higher dividends received from Petroliam Nasional Berhad of RM50 billion as compared to RM25 billion in 2021. In addition, petroleum royalty receipts also increased by RM2.276 billion to RM5.975 billion.
- **Operating Expenditures**
 - The final budget approved for operating expenditures was RM236.966 billion, while the operating expenditures incurred was RM292.693 billion. The surplus amount of RM1.664 billion in the Consolidated Revenue Account was transferred to the Development Fund, which made the total operating expenditures amounted to RM294.357 billion.
 - Ministry of Finance recorded the highest operating expenditure among the ministries amounted to RM120.174 billion or 40.8% from the Federal Government's total operating expenditures in 2022, an increase of RM47.125 billion or 64.5% as compared to RM73.049 billion in 2021. The significant increase in the Ministry of Finance's expenditure was contributed by subsidy expenditure on petroleum products amounted to RM45.184 billion, an increase of RM35.161 billion or 350.8% as compared to RM10.023 billion in 2021.

- Based on the categories of expenditure, grants and fixed charges was recorded as the highest expenditure amounted to RM170.243 billion or 57.8% from total operating expenditures.
- Emolument expenditure incurred was RM87.789 billion or 29.8% from total operating expenditures in 2022. An amount of RM75.501 billion or 86% was incurred by Ministry of Education (RM40.319 billion), Ministry of Health (RM17.406 billion), Ministry of Home Affairs (RM9.937 billion) and Ministry of Defence (RM7.839 billion).
- Payments made under AP58(a) had increased by RM1.010 billion or 49% to RM3.073 billion in 2022 as compared to RM2.063 billion in 2021. A sum of RM423.12 million or 13.8% was paid after April 2022.

- **Subsidies Expenditure**

- Subsidies expenditure was recorded at RM55.443 billion, an increase of RM42.309 billion or 322.1% as compared to RM13.134 billion in 2021. Subsidy of petroleum products was recorded the highest subsidies expenditure amounted to RM45.184 billion or 81.5% from the total subsidies expenditure.

- **Charges on Account of Public Debt**

- Charges on account of public debt had increased by RM3.200 billion or 8.4% to RM41.269 billion in 2022.
- The percentage of this expenditure over revenue collection of RM294.357 billion in 2022 was 14% compared to 16.3% in 2021.
- RM40.553 billion or 98.3% of the total charges was for interest payments, dividends or profits on domestic debts. While RM0.713 billion or 1.7% was for interest payments, dividends or profits on external debts.

- **Development Expenditures**

- Overall, the total development expenditures of ministries and federal departments was RM71.574 billion or 104.5% as compared to the approved allocation.
- Included in the development expenditures of RM71.574 billion was expenditures charged within account payables period amounted to RM6.068 billion. These expenditures involved the Ministry of Finance on the distribution of development allocations to three companies, namely DanaInfra Nasional Berhad, Prasarana Malaysia Berhad and Urusharta Jamaah Sdn. Bhd. A total of RM17.086 billion was spent for commitment on guarantees, an increase of RM7.439 billion or 77.1% compared to RM9.647 billion in 2021.

- **Covid-19 Fund Expenditures**

- Covid-19 Fund (KWC) expenditures was recorded at RM30.979 billion. The allocation received from the Consolidated Loan Account was RM30.880 billion. KWC's accumulated expenditure until end of 2022 was RM106.709 billion or 97% compared to the fund ceiling of RM110 billion.
- Programmes that recorded among the highest expenditures were Social Assistance Support for Vulnerable Groups (RM9.043 billion), Bantuan Prihatin Nasional (RM7.910 billion), Electricity Bill Discounts (RM5.876 billion), Wage Subsidy, Job Retention and Workers' Hiring Incentive and Training Assistance Programmes (RM2.323 billion) and Allocation for COVID-19 Related Expenses (RM1.848 billion).

- **Deficit and New Borrowings**

- The Federal Government's deficit in 2022 was recorded at RM99.482 billion or 5.6% to Gross Domestic Product (GDP). The deficit was funded through net borrowings of RM99.837 billion.

- Gross borrowings received in 2022 increased by RM14.164 billion or 6.5% to RM231.365 billion as compared to RM217.201 billion in 2021, primarily due to higher principal repayment of matured debts amounted to RM131.528 billion as compared to RM113.764 billion in 2021.
- A sum of RM68.541 billion from the gross borrowings was transferred to Development Fund, an increase of RM6.224 billion or 10% as compared to RM62.317 billion in 2021. The increase was partly due to development expenditure amounted to RM48.962 billion and commitment on guarantees amounted to RM17.086 billion.
- A total of RM30.880 billion was transferred to Covid-19 Fund.
- Overall, a sum of RM151.107 billion or 65.3% from RM231.365 billion of gross borrowings for the year 2022 was utilised for principal repayment of matured debts amounted to RM131.528 billion, government guaranteed loans amounted to RM17.086 billion and amortisation of Private Finance Initiatives Liabilities (PFI Liabilities) amounted to RM2.493 billion.

- **Federal Debt**

- The Federal Debt reported in the Financial Statements of the Federal Government consists of debts raised directly by the Federal Government, excluding debts raised by other Government agencies and companies.
- Federal Debt was reported at RM1,079.591 billion, increased by RM99.777 billion or 10.2% as compared to 2021 which was RM979.814 billion. Debt to GDP ratio was at 60.3%.
- 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 31st December 2022. The Federal Statutory Debt consists of Islamic Treasury Bills, Government Investment Issue and Malaysian Government Securities. These three debt instruments in 2022 was recorded at

RM1.032 trillion or 57.6% to GDP, which was below the statutory limit of 65% to GDP.

- The Federal Debt consisted of domestic debts amounted to RM1,050.078 billion or 97.3% and external debts amounted to RM29.513 billion or 2.7%. Domestic debts increased by RM99.994 billion or 10.5%, whereas external debts decreased by RM0.218 billion or 0.7%.
- The Federal Debt of RM709.751 billion or 65.7% will mature between one to 10 years, while a total of RM266.141 billion or 24.7% will mature between 11 to 20 years and the remaining amount of RM103.699 billion or 9.6% will mature between 21 to 30 years.

- **Financial Liabilities**

- The Financial Liabilities comprises of PFI Liabilities, Financial Commitments and Other Liabilities amounted to RM319.571 billion in 2022 as compared to RM325.232 billion in 2021.
- PFI Liabilities was recorded at RM34.492 billion in 2022, a decrease of RM1.083 billion or 3% compared to RM35.575 billion in 2021. A sum of RM2.493 billion had been incurred for principal repayment of debt and payment of interest.
- Financial Commitments in 2022 amounted to RM284.924 billion, decreased by RM4.582 billion or 1.6% as compared to RM289.506 billion in 2021. The commitments showed the obligations of the Federal Government in remitting to relevant parties as follows:
 - Commitment on Guarantees: RM224.116 billion (2021: RM229.392 billion);
 - Finance Lease Commitments: RM34.552 billion (2021: RM37.280 billion);

- Tax Refund Commitments: RM25.721 billion (2021: RM21.836 billion); and
 - Compensation Commitments: RM0.535 billion (2021: RM0.998 billion).
- The amortisation of PFI Liabilities and commitment on guarantees in 2022 amounted to RM35.320 billion was utilised from operational allocation of RM0.206 billion, development allocation of RM19.579 billion and Asset Recovery Trust Fund allocation of RM15.535 billion.
 - Other Liabilities consists of Notes Payable, Unclaimed Securities and the Central Depository Account amounted to RM155.34 million, increased by RM4.39 million or 2.9% as compared to RM150.95 million in 2021.

- **Federal Liabilities**

- The Federal Liabilities which consist of Federal Debt and Financial Liabilities was positioned at RM1.399 trillion, increased by RM94.116 billion or 7.2% in 2022 as compared to RM1.305 trillion in 2021. The Federal Liability ratio to GDP in 2022 was 78.1%, which is decreased as compared to 84.3% in 2021.
- Overall, the total expenditures on Federal Liabilities in 2022 was RM208.117 billion which comprised of principal repayment of matured debts (RM131.528 billion); charges on account of public debt (RM41.269 billion), commitment on guarantees (RM32.827 billion) as well as amortisation of PFI Liabilities (RM2.493 billion).

- **Federal Assets**

- The value of Federal Assets in 2022 was RM139.554 billion, which comprised of Investments and Account Receivables.
- Investments of equity holdings in companies, statutory bodies and international agencies was RM34.030 billion. The Federal Government's Account Receivables was RM105.524 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 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;
 - ensure that the Development Fund should be used to finance physical and non-physical projects which falls under the five-years Malaysian Development Plan. Grant allocation to companies for loan repayment should be monitored to prevent it from continuously increasing in the future; and
 - ensure that each reporting and changes in the items of the financial statements are in accordance with Government Accounting Standards and financial regulations in force.