

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

Key Highlights**What was audited?**

- Under Section 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 accounting basis.
- The Financial Statements comprise of the Statements of Financial Position as at 31 December 2020, Statements of Cash Receipts and Payments, Statements of Financial Performance, Statements of Accounts Memorandum, and notes to the financial statements.
- The audit was conducted in accordance with Section 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 to be audited?

- 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 are the
audit findings?**

The audit findings are as follows:

PART I:

**The Audit of Financial Statements of the Federal Government
for the Year Ended 31 December 2020**

- 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 2020, and of its financial performance and its cash flows for the year 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 10(a) on the Federal Government debt for the year 2020 was RM879.560 billion or 62.1% of Gross Domestic Product. New borrowings raised during the year was RM194.555 billion, an increase of RM55.996 billion or 40.4% compared to RM138.559 billion in 2019. Out of this RM194.555 billion, RM98.058 billion or 50.4% was utilised for principal repayments. This indicated the Government's reliance on new borrowings for principal repayments. In the long term, the Government's financial burden for borrowing costs will increase, resulting in a reduction of operating allocation for procurement of supplies and services as well as purchase of assets.
- Note 7(a)(i) on Development Fund for the year 2020 recorded a deficit of RM13.255 billion. Receipts for this fund amounted to RM62.805 billion which included new borrowings amounted to RM48.571 billion. A total of RM8.265 billion or 17.0% was utilised for financing Private Finance Initiatives Liabilities and commitments on guarantees while RM40.306 billion or 83.0% was used for development expenditures. An amount of RM2.650 billion from the development expenditures was a reclassification of operating expenditures related to Public Private Partnership and large-scale maintenance services such

as support services for hospitals and clinics under the Ministry of Health amounted to RM1.908 billion and facility maintenance services under the Ministry of Education amounted to RM0.742 billion. The Development Fund which was financed through borrowings should be used to finance physical development projects which will contribute to the formation of new fixed capital that can enhance national development as well as create a high multiplier effect to generate economic activities.

- **Other Matters**

- The Financial Authority must ensure the accounting policies with regard to premiums and discounts on the issuance of government debt securities are prepared in accordance with the Government Accounting Standards. The Financial Authority must establish a revenue classification for recognition of premium and its transfer policies. This is in accordance with the concept of relevance in accounting principle, which means that such information reported must be timely, and also in compliance with modified cash basis of accounting, whereby all receipts are accounted 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 2020 as compared to 2019 as per **Table 1**.

TABLE 1
FINANCIAL PERFORMANCE
FOR THE YEAR 2020 AS COMPARED TO 2019

DETAILS	2020 (RM Billion)	2019 (RM Billion)	DIFFERENCE	
			RM Billion	%
Revenues	225.075	264.415	(39.340)	(14.9)
(-) Operating Expenditures	(224.600)	(263.343)	(38.743)	(14.7)
Surplus	0.475	1.072	(0.597)	(55.7)
(+) Loan Recoveries and Miscellaneous Receipts	1.259	1.731	(0.472)	(27.3)
Total	1.734	2.803	(1.069)	(38.1)
(-) Development Expenditures	(51.360)	(54.173)	(2.813)	(5.2)
(-) COVID-19 Expenditures	(38.019)	-	38.019	100.0
Deficit	(87.645)	(51.370)	36.275	70.6
Deficit to GDP Ratio	6.2%	3.4%		
Gross Borrowings	194.555	138.559	55.996	40.4
Federal Debt	879.560	792.998	86.562	10.9
Federal Debt to GDP Ratio	62.1%	52.4%		
Financial Liabilities	307.253	286.540	20.712	7.2
Federal Liabilities	1,186.812	1,079.538	107.275	9.9
Federal Liabilities to GDP Ratio	83.8%	71.3%		

Source: Financial Statements of Federal Government Year 2020

Notes: 1. GDP 2020: RM1,416.605 billion dan GDP 2019: RM1,513.157 billion

2. Statutory Limit of Federal Debt to GDP Ratio as at 31 December 2020 was 57.9%

- Revenue
 - The total revenue of Federal Government in 2020 at RM225.075 billion showed a decrease of RM39.340 billion or 14.9% compared to 2019 which recorded at RM264.415 billion.
 - The Federal Government's revenues consisted of RM154.398 billion or 68.6% in tax revenue, RM62.047

billion or 27.6% in non-tax revenue, RM7.954 billion or 3.5% in non-revenue receipts and RM0.676 billion or 0.3% in Federal Territory revenue.

- A significant reduction appeared in both tax revenue and non-tax revenue with the amount at RM26.168 billion and RM17.778 billion respectively as compared to 2019 which amounted to RM260.391 billion. The reduction in tax revenue is due to tax initiatives given in the Economic Stimulus Package such as sales tax exemption and excise duty for passenger's motor vehicles, service tax exemption for hotels and tax deferral facilities. Simultaneously, the downturn of world's crude petroleum prices and decrease in sales during the implementation of the Movement Control Order affected petroleum income taxes which declined by RM8.011 billion. The declining in non-taxes revenue was due to lower dividend received from Petroliam Nasional Berhad amounting to RM34 billion as compared to RM54 billion in 2019.
- Included in non-taxes revenue of RM62.047 billion was a sum of RM6.046 billion which represented the amount of net premiums from the issuance of Government Debts Securities. The premium amount had been transferred to the Revenue Account under item interest and proceeds from investments.
- Operating Expenditures
 - The final budget approved for operating expenditures was RM226.720 billion, while the actual total expenditures incurred was RM224.600 billion.
 - Emolument expenditure incurred was RM82.996 billion compared to RM80.534 billion in 2019, with an increase of RM2.462 billion or 3.1%.
 - On the other hand, the expenditure for Supplies and Services decreased to RM29.323 billion as compared to RM31.506 billion in 2019, with a decrease of RM2.183

billion or 6.9%. The same reduction is recorded in relation to maintenance and minor repair expenditure amounted to RM1.322 billion and transportation and travelling amounted to RM0.385 billion.

- Moreover, asset's expenditure decreased by 18.1% from RM0.770 billion in 2019 to RM0.631 billion in 2020.
 - Grants and Fixed Charges decreased by 25.6% or RM38.089 billion from RM148.777 billion in 2019 to RM110.688 billion in 2020. Expenditures under the Domestic Grants reduced significantly by 50.7% or RM42.397 billion from RM83.619 billion in 2019 to RM41.222 billion in 2020. Major contribution of this significant movement was due to the absent of statutory allocation of Tax Refund Fund and Goods and Service Tax Refund Fund during the year of 2020 as compared to RM35 billion received during the year of 2019.
 - Other expenses reduced to RM0.962 billion in 2020 as compared to RM1.755 billion in 2019.
- **Borrowing Costs**
 - Borrowing Costs (interest, dividends and other charges) was RM34.495 billion or 15.3% of total Federal Government revenue for the year 2020. This expenditure increased by RM1.562 billion or 4.7% as compared to 2019 which amounted to RM32.933 billion. However, the principal repayment of matured debt amounted to RM98.058 billion was omitted from operational allocation's budget, instead it was paid directly from the Consolidated Loan Account.
 - **Development Expenditure**
 - The total development expenditure of ministries and federal departments was RM51.360 billion or 97.5% as compared to the approved allocation.

- Included in the development expenditure was RM2.650 billion of operating expenditures related to Public Private Partnership and large-scale maintenance services. The expenditure is related to the support services for hospitals and clinics under the Ministry of Health amounted to RM1.908 billion and facility maintenance services under the Ministry of Education amounted to RM0.742 billion.
 - A total of RM8.265 billion from the Ministry of Finance's development allocation was for the purpose of financing the Private Finance Initiatives Liabilities amounted to RM3.137 billion and commitments on guarantees issued amounted to RM5.128 billion. The expenditure increased by RM2.027 billion or 32.5% as compared to 2019 which was amounted to RM6.238 billion.
 - A total of RM77.36 million allocation that has been approved belong to 12 projects within five ministries and departments, eventually was totally unspent.
 - Expenditures for five projects within four ministries had exceeded the approved allocation of RM2.856 billion. However, the excess expenditure was approved through First Supplementary Development Expenditure Estimate 2020 gazetted in 20th of May 2021.
- COVID-19 Funds Expenditure
 - The COVID-19 Funds (KWC) was established through the provisions of Section 4, Temporary Measures for Government Financing [Coronavirus Disease 2019 (COVID-19)] Act 2020 or Act 830.
 - KWC was financed through the issuance of loans raised through Loans (Local) Act 1959 and the Government Funding Act 1983. A total of RM38.020 billion was transferred to KWC and a sum of RM38.019 billion has been spent.

- KWC's expenditure consist of cash assistance amounting to RM17.049 billion, subsidies and rebates amounting to RM13.168 billion, grants and borrowing funds amounting to RM4.101 billion as well as procurement of supplies and services amounting to RM3.701 billion.
- Deficits and New Borrowings
 - The Federal Government's deficit was recorded at RM87.645 billion or 6.2% of total GDP. The deficit was funded through new borrowings amounted to RM194.555 billion.
 - A sum of RM98.058 billion or 50.4% of gross borrowings was utilized for the repayments of matured debts. This indicated the Government's reliance on new borrowings for principal repayments of matured debts.
 - A sum RM48.571 billion or 25.0% from the gross borrowings had been transferred to Development Funds. An amount of RM10.915 billion or 22.5% of the expenditures comprises of operating expenditure as well as amortisation of Private Finance Initiatives Liabilities and Government Guaranteed Loans.
- Federal Debts
 - Federal Debts was recorded at RM879.560 billion, an increased by RM86.562 billion or 10.9% as compared to 2019 which amounted to RM792.998 billion. Debt to Gross Domestic Product (GDP) ratio was at 62.1%.
 - The statutory limit on Federal Debts has been increased from a ratio of 55% to 60% from GDP, effective from 26th October 2020 until 31st December 2022 based on provisions under Act 830. The statutory limit consists of Malaysian Islamic Treasury Bills, Malaysian Government Investment Issue and Malaysian Government Securities. These three debt instruments in 2020 was positioned at RM820.018 billion or 57.9% to GDP.

- The Federal Government debts consists of domestic debts RM851.284 billion or 96.8% and external debts amounted to RM28.276 billion or 3.2%. Domestic debts increased by RM87.051 billion or 11.4%, whereas external debts decreased by RM0.489 billion or 1.7%.
- The Federal Debts stated in the financial statement of Federal Government consist of debts raised directly by the Federal Government, excluded debts raised by other Government's agencies and companies.
- Financial Liabilities
 - The Financial Liabilities comprises of Private Finance Initiatives (PFI) Liabilities, Financial Commitments and Other Liabilities amounted to RM307.252 billion as compared to RM286.540 billion in 2019.
 - PFI Liabilities was recorded at RM37.034 billion, a decrease of RM1.796 billion or 4.6% compared to RM38.830 billion in 2019.
 - Financial Commitments of the Federal Government amounted to RM269.940 billion, as compared to RM247.461 billion in 2019. The commitments revealed the obligation of the Federal Government in remitting to relevant parties as follows:
 - Guaranteed commitments : RM216.842 billion (2019: RM193.992 billion)
 - Finance lease commitments : RM37.571 billion (2019: RM33.086 billion)
 - Tax refund commitments : RM14.635 billion (2019: RM19.392 billion)
 - Compensation commitments : RM0.892 billion (2019: RM0.990 billion)
 - The amortisation of PFI Liabilities and guaranteed commitments amounted to RM8.799 billion was utilised

from operational allocation of RM0.534 billion and development allocation of RM8.265 billion.

- Other Liabilities consists of Notes Payable, Unclaimed Securities and the Central Depository Account amounted to RM0.278 billion compared to RM0.249 billion in 2019.

- Federal Liabilities

- The Federal Liabilities which consists of Federal Debts and Financial Liabilities increased to RM1.187 trillion compared to RM1.080 trillion in 2019. The total Federal Liabilities was much higher than the asset position recorded at RM139.614 billion in the Statement of Memorandum Accounts. There is an upward movement of 83.8% for Federal Liability ratio to GDP during the year 2020, as compared to 71.3% in 2019.

- Federal Assets

- The Federal Government's investment in deposits, securities and shareholdings of companies or statutory bodies or agencies was at RM33.191 billion. The Federal Government's Accounts Receivable was RM106.423 billion, which comprised of Loans and Advances Recoverable as well as Other Accounts Receivable.

Audit Recommendations

- The audit recommendations are as follows:
 - enhance efficiency in operating expenditures, to enhance the effort of generating income and monitoring the commitments towards repayment of matured debts. These are importance to ensure that the surplus of income are sufficient to finance the development expenditures and to lessen dependency on new borrowings;
 - establish a consistent policy in recognising premium and discounts from the issuance of Government Debts Instruments;

- ensure that monies from the Development Fund be utilised for the purpose of financing development projects which will create a high multiplier effect to generate economic activities; and
- set a ceiling for guaranteed loans raised by statutory agencies and companies to reduce additional commitments of the Government should any default occur.