

**Disclosure of Accountability Information in Public Sector:
The Case of Malaysian Federal Statutory Bodies**

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ABSTRACT

Federal statutory bodies (FSB) in Malaysia is one of the major recipients of federal government assistance annually. It can be therefore reasonable to expect some form of accountability and transparency discharged by these organisations. Being public sector organisations that adopts a corporate style-management, annual reports would be an important accountability medium for FSB. Based on this premise, the study aims to: (i) determine the level of disclosure in the annual reports of FSB, and, (ii) identify the predictors of this disclosure level. It adopts a cross-sectional data analysis, using 2008 annual reports of 93 FSB. Using a self-developed disclosure index, the study found FSB provides a moderate level of disclosure in their annual reports with the financial category of information being mostly disclosed and governance-related information being least disclosed. Results from multiple regression analysis show a negative relationship between reliance on federal and disclosure level. FSB size and accessibility of FSB annual report was positively associated with disclosure level. Board size was not a significant factor.

1.0 Introduction

The state of affairs of the Malaysian government transparency and accountability has been captured by several worldwide studies rankings¹. These studies generally indicate that Malaysia needs to put rigorous effort in improving its accountability and transparency (Abu Bakar & Ismail, 2011; Abu Bakar, Saleh, & Mohamad, 2011). Additionally, yearly reports of the Malaysian Auditor General (AG) and specific reports of the Public Accounts Committee (PAC), among others have highlighted many mismanagement of public funds by several government agencies (Abu Bakar & Ismail, 2011; National Audit Department Malaysia, 2009). One of the most notable scandals was the Port Klang Free Zone (PKFZ) fiasco which allegedly resulted in a loss of RM4.6billion the taxpayers (Transparency International, 2009). The PKFZ is owned by Port Klang Authority (PKA), a statutory body under the federal government.

¹ Among the studies was The World Bank on Governance Indicators (Kaufmann et al. 2008). In the aspect of 'Voice and Accountability', Malaysia was placed in the third quarter of their 2007 ranking. Another separate study called 2008 Open Budget Index conducted by an independent body (i.e. International Budget Partnership) ranked Malaysia at 53rd place out of 85 countries, implying that the country has been providing minimal information on the central government's budget and financial activities during the course of the budget year (International Budget Partnership 2008).

Accountability cases in federal statutory bodies (FSB) do not only involve PKA, but there were previously other well-publicized cases involving this type of public agency, for example in the Pilgrimage Fund, Employee Provident Fund (EPF) and Farmers' Land Development Authority (FELDA) (BERNAMA, 2010). Various accountability problems have also been highlighted and reported by the AG in its yearly reports on FSB (National Audit Department Malaysia, 2009). Among the common problems highlighted were lack of compliance to rules and regulations, substandard performance, weaknesses in implementation, and lack of competency and expertise.

Given the above scenario on the accountability status of FSB in Malaysia and the fact that FSB is one of the recipients of substantial amount of public funds² as well as constitutes a large proportion in Malaysian public sector³, there is a need to have a more complete picture of how well FSB have discharge their accountability. An aspect of accountability that have not been sufficiently dealt with in both the public domain (e.g. media, AG reports, PAC reports) and literatures is the transparency issue. Many corruptions and fraudulent cases are the outcome of lack of transparency. An aspect of transparency would be the disclosure of information through various medium including the annual reports which has been regarded by the literatures as the main tool to discharge accountability. On the premise that higher disclosure improves transparency and thus accountability, and drawing from the public accountability paradigm and agency theory, this study aims to: (i) determine the extent of accountability disclosure in annual reports by FSB, and, (ii) to identify the determinants of the disclosure level.

2.0 Malaysian Federal Statutory Bodies

FSB has been defined by the Statutory Bodies (Accounts and Annual Reports Act 1980 (Act 240) as:

Any body corporate, irrespective of the name by which it is known, that is incorporated pursuant to the provisions of federal law and is a public authority or an agency of the Government of Malaysia but does not include a local authority and a body corporate that is incorporated under the Companies Act 1965 [part 1, para.2].

² The next section will discuss this in more detail by providing some statistical evidence.

³ This particularly refers to the number of employees in FSB. This also will be discussed in the next section.

FSB are established to carry out government’s policy professionally and effectively through various programmes and activities (National Audit Department, 2008). Compared to the departmental undertakings under ministries, FSB have far more both managerial and financial autonomy (Mohamad & Karbhari, 2009; Othman, 2005). FSB are federal agencies within ministries and are established under a parliamentary Act specific for that particular FSB or a group of FSB with similar activities⁴. **Figure 1** below shows FSB hierarchical position in the Malaysian government.

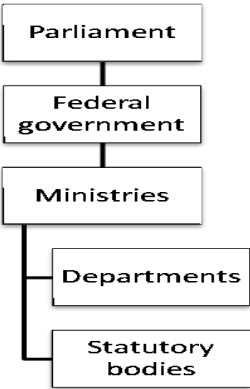


Figure 1: Hierarchical position of FSB in Malaysian government

FSB forms a large proportion of Malaysian public sector. For example, in terms of employment, FSB employed 8.8 per cent of the total public servants (110,708 personnel out of the 1,253,026) (Public Service Department, 2009). In terms of financial performance, FSB contributes approximately a net of RM35.6 billion in terms of net surplus income in year 2009. Despite the huge net surplus, data also shows that around 18.3% (21 out of 115) of FSB are suffering deficit in year 2009.

FSB received financial assistance from the federal government to subsidize its programmes and activities, in the form of grants and loans. Operating grants, for example, are given by the federal government to FSB as assistance to complete the latter programmes and planned activities (National Audit Department, 2004). In 2009 for example, approximately RM15.28 billions of operating grants were disbursed to 75 FSB (out of 115), representing 22.6% of all FSB total income. Recent data also show increasing reliance by FSB on the grants to

⁴ Example is universities. All public universities which are FSB are established under Universities and College Universities Act.

subsidise their operational costs (National Audit Department, 2004). **Table 1** below shows the proportion of operating grants and self-generated income with respect to total income of FSB for three consecutive years.

Table 1: Proportion of self-generated income and operating grant in FSB total income

Year	Total income RM billion	Self-generated income		Operating grant		No. of FSB receiving OG / Total FSB assessed
		RM billion	%	RM billion	%	
2009	67.73	52.45	77.4	15.28	22.6	75 / 115
2008	60.09	48.78	81.2	11.31	18.8	78 / 115
2007	61.1	50.9	83.3	10.20	16.7	66 / 110

Source: Prepared by the author based on content review of the Auditor General Report for year 2006 to 2009.

FSB can have their own financial procedures, systems and procedures and decide their accounting policies so long as they do not contradict with the approved accounting standards (National Audit Department Malaysia, 2008). In this respect, Treasury Circular No.4/2007⁵ (TC4/2007) has required FSB to adhere to the accounting standards issued by the Malaysian Accounting Standard Board (MASB). In general, FSB prepared financial statements based on accrual basis for each financial year.

The Statutory Bodies Act (Accounts and Annual Reports) 1980 (or Act 240) has required FSB to submit their annual report and financial statements for audit to the AG within six (6) months after the financial year end. These documents are then to be submitted by FSB to their respective Ministers one (1) month after the AG certification who will then be required to table these documents to the Parliament as soon as practicable. Act 240 also specifies that the audit of the financial statements is subject to the Audit Act 1957.

TC4/2007 on the other hand requires submission of financial statements within only 4 months after the balance sheet date and has set the target that the whole process from the financial year end to the tabling of annual reports and financial statements to the Parliament to be

⁵ Treasury Circular No.4/2007 (TC 4/2007) is on 'Guideline for Preparation and Presentation of Annual Reports and Financial Statements of Statutory Bodies'. It has been issued by the Malaysian Treasury, Ministry of Finance to guide FSB towards the preparation and presentation of their annual reports and financial statements partly as a medium to enhance FSB accountability (Treasury of Malaysia, 2007) and governance in all FSB (National Audit Department, 2008). The Circular, which contains guidelines on the preparation and presentation in annual reports and financial statements of FSB has been implemented effective financial year end 2007. It revises and replaces the previous circular namely the Treasury Circular No.15/1994 which had previously replaced Treasury Circular No. 4/1988.

completed within one year (Treasury of Malaysia, 2007). In this regard, the National Audit Department has set in its vision, mission and client charter to certify the financial statements within 4 months from the date these statements were received. It was argued that quicker Parliamentary tabling may allow the stakeholders to assess the performance of FSB in a more clear, complete and relevant manner (National Audit Department, 2008).

TC4/2007 has also outlined the minimum disclosure requirements of the annual report to be complied with by all FSB. According to the Circular, annual report needs to provide corporate information, background information of the entity, chairman report, report on government assistance, analysis of financial performance, performance report, audited financial statements, and, other information. At present, although different FSB serves different functions, the guideline provides a standard list of minimum disclosure requirements that applies across all FSB.

3.0 Literature Review

3.1 Transparency and Accountability in Public Sector

Transparency can be defined as ‘the extent to which all ... stakeholders have a shared understanding of, and access to ... the information they request, without loss, noise, delay and distortion’ (Hofstede, 2003, quoted in Papenfuß & Schaefer, 2010). Transparency is related to the concept of accountability whereby it supports accountability (refer **Figure 2**). In other words, to achieve full accountability, one of main ingredients would be transparency. Loosely defined, accountability is often used as a synonym for “good governance” or “virtuous behavior” (Bovens, 2007). It can be described as:

A relationship between an actor and a forum in which the actor has the obligation to explain and to justify his or her conduct, the forum can pose questions and path judgment, and the actor may face consequences (Bovens 2007).

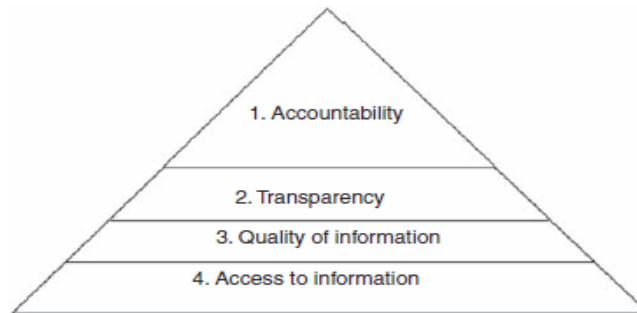


Figure 2: Phase Concept for Accountability

Source: Adopted from Papenfuß & Schaefer (2010)

According to Samaratunge et al. (2008),

Accountability is an important means for establishing criteria to measure the performance of public officials, and for creating oversight mechanisms, to ensure that the quality of public services is improved. Lack of accountability makes a state weak and its public management system dysfunctional.

Following that, among the different mediums can be used by the public sector to discharge its accountability is through reporting. Reporting may be done through various avenues including media release, mailings to citizen groups (Taylor, 2006), websites, and annual reports. Annual report has been regarded in the literature as the main medium of information dissemination in the public domain and therefore an accountability tool (Tooley & Guthrie, 2007; Wall & Martin, 2003; Wei, Davey, & Coy, 2008). Annual reports usually comprises activity report and financial report (Garcia, Lopez-Diaz, & Rodriguez, 2002) (refer **Figure 3**).

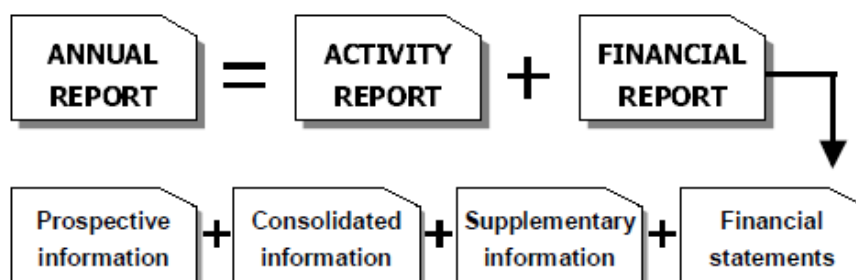


Figure 3: Components of Annual Reports

Source: Adopted from Garcia et al. (2002)

Government stakeholders who would be interested in public sector annual reports and accounts would include many parties. They can be divided into internal and external users (Lapsley, 1992) (refer **Figure 4**). Internal users may include government officers and members. The external group may be divided into two type; (i) those who have direct and regular access to the document (e.g. parliament, Auditor General, auditors, the responsible minister, Ministry of Finance, external experts who may be hired by the bodies governing boards/committees/councils), and (ii) those who have limited resources to access the documents (e.g. clients and client groups, the general public, pressure groups media) (Lapsley, 1992; J. Taylor, 2006).

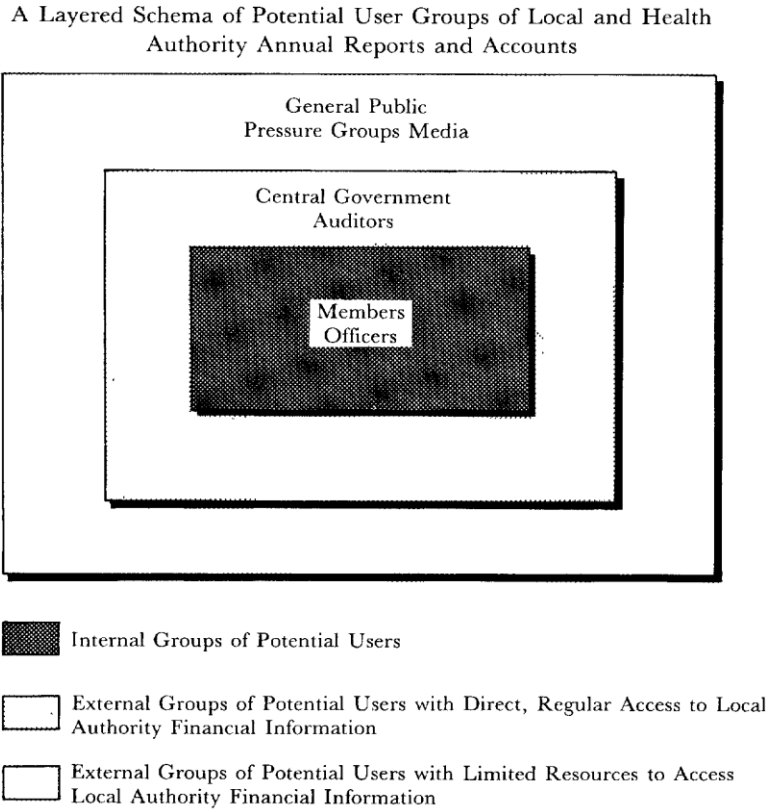


Figure 4: A Layered Schema of Stakeholders of Annual Reports and Accounts
 Source: Adopted from (Lapsley, 1992)

3.2 Studies on Public Sector Disclosure

Research on public sector disclosure (PSD) covers a wide range of public sector entities. These include governments at different levels including the *local government* (e.g. Coombs & Tayib, 2000; Marcuccio & Steccolini, 2009), *state governments* (e.g. Cheng, 1992; D. Taylor & Rosair, 2000), the *central governments* (e.g. Caba Perez & Lopez-Hernandez, 2009; Ellig, 2009), *municipal governments* (e.g. Giroux, 1989; Smith, 2004) and *regional government* (e.g. Bolivar, Perez, & Lopez Hernandez, 2007). Studies also covers various public services such as the *public higher educational institutions* (e.g. Coy, Tower, & Dixon, 1993; Dixon, Coy, & Tower, 1991; Gordon, Fischer, Malone, & Tower, 2002) and public schools (e.g. Tooley & Guthrie, 2007). There are also studies conducted on various types of public agencies including *executive agencies* (e.g. N. Hyndman & Andersen, 1995; N. S. Hyndman & Eden, 2002) and *statutory bodies/authorities* (e.g. Lim & Mckinnon, 1993; J. Taylor, 2006). The cursory examination of prior research indicates that most studies on PSD tend to focus on local governments and public higher education institutions. Despite this, it is argued that the importance of disclosure in other types of government entities such as federal governments, state governments and statutory bodies should not be underemphasized.

Studies on public sector disclosure varied in terms of the aspects of disclosure being tested. Among the most researched aspects of disclosure include *financial reporting* (e.g. Caba Perez & Lopez-Hernandez, 2009), *performance reporting* (e.g. Christensen & Yoshimi, 2001, 2003). Other aspects of disclosure which are less studied include sustainability reporting which (e.g. Mussari & Monfardini, 2010) and intellectual capital reporting (e.g. Schneider & Samkin, 2008). There are also some studies that studied a more comprehensive concept of disclosure, termed in their studies as *accountability reporting* (e.g. Nelson, Banks, & Fisher, 2003; Ryan, Stanley, & Nelson, 2002; D. Taylor & Rosair, 2000) and *annual reporting* (e.g. Coy & Dixon, 2004; Herawaty & Hoque, 2007; Wei, et al., 2008). The focus of this study is on this type of disclosure (i.e. accountability or annual reporting).

3.3 Studies on Malaysian Public Sector Disclosure

There are few studies on public sector disclosure in Malaysian context (e.g. Ismail & Abu Bakar, 2011; Joseph, 2010; Nichol & Taylor, 2001; Tayib, Coombs, & Ameen, 1999). The settings been studied include local authorities (e.g. Joseph, 2010; Tayib, et al., 1999), federal government (e.g. Nichol & Taylor, 2001) and public universities (e.g. Ismail & Abu Bakar, 2011). Aspects of disclosure been studied have been financial reporting (e.g. Tayib, et al., 1999), sustainability reporting (e.g. Joseph, 2010), accountability reporting (e.g. Ismail & Abu Bakar, 2011; Nichol & Taylor, 2001) and performance reporting (e.g. Nichol & Taylor, 2001).

Further, the medium of disclosure that have been researched include annual reports (e.g. Ismail & Abu Bakar, 2011), websites (e.g. Joseph, 2010), annual public accounts (e.g. Nichol & Taylor, 2001) and financial accounts (e.g. Tayib, et al., 1999). The method of measuring disclosure include the use of disclosure index (e.g. Ismail & Abu Bakar, 2011), content analysis (e.g. Joseph, 2010; Nichol & Taylor, 2001). Further, very limited number of studies examines factors or determinants of disclosure (e.g. Johl, 1993; Joseph, November 2010; Mucciarone, 2008).

Very few focus on reporting or disclosure issues (e.g. Azis, 2008; Ismail & Abu Bakar, 2011). Azis (2008) for example prepared a disclosure checklist based on the Treasury Circular No.15/1994 which outlines the preparation of annual reports and financial statement and see to what extent the FSB compliance to this guideline. She collected the data from 2005/2004 annual reports of 62 FSB and found that the compliance level is at average level.

Ismail & Abu Bakar (2011) on the other hand, examined the extent of accountability disclosure in the annual reports and websites of 11 Malaysian public universities and compare between the new and old universities. They developed disclosure index based on the Treasury Circular 4/2007 and selected items from the Modified Accountability Disclosure (MAD). They found that Malaysian public universities have to some extent disclosed relevant information in their annual report but the level of information published on the website is considered very low. Additionally, established universities' group is better off in terms of information disclosure for both channels of communication.

4.0 Research Methodology

To answer the two research questions of the study, the study was carried out in two phases. In phase one, content analysis was conducted on FSB annual reports to determine the disclosure level using a self-developed disclosure index. In phase two, association between predictors and the disclosure level was tested using multiple regression analysis.

4.1 Phase One: Disclosure Level

4.1.1 Development of the Disclosure Index

To measure disclosure level, disclosure index approach is used. A disclosure index was developed from the following sources: (i) relevant statutory requirements including TC4/2007, General Circular Letter No. 6 of 2004⁶ (MAMPU, 2004), the Development Administration Circular No. 2 of 2005⁷ (MAMPU, 2005), the Malaysian Code on Corporate Governance⁸ (Securities Commission, 2007) and Treasury Circular Number 10 of 2008⁹ (Treasury of Malaysia, 2008) and IFAC Public Sector Committee (IFAC Public Sector Committee, 2001), (ii) prior studies (e.g. Coy & Dixon, 2004; Coy, Tower, & Dixon, 1994; Gray & Haslam, 1990; e.g. Herawaty & Hoque, 2007; Joseph, 2010; Lim & Mckinnon, 1993; Ryan, et al., 2002; Schneider & Samkin, 2008; Tooley, Hooks, & Basnan, 2010; Wall & Martin, 2003; Wei, et al., 2008), and, (iii) a review of the FSB annual reports.

The draft index was sent for comment to six local and international experienced researchers in public sector disclosure with the aim to validate the general framework of the index regarding the scoring system and the adopted categories (Coy & Dixon, 2004) and to determine the clarity of the index (Anam, 2009). The final outcome of these steps is 115 accountability disclosure items with five categories and 24 subcategories. The categories and its number of subcategories are as follows: overview (8), governance (5), financial (4), performance (4) and others (3). To avoid confusion with indices used in other studies, the index is referred to as the Accountability Disclosure Index for Statutory Bodies or ADIS (for the complete index, refer to **Appendix 1**). ADIS adopts a dichotomous method of scoring, consistent with many

⁶ This Circular is on "Preparation of Annual Summary Report of The Financial Status and Performance of Federal Statutory Bodies". This Circular is useful to incorporate relevant financial and performance information.

⁷ The Circular is on "Guideline on establishing key performance indicators (KPI) and implementing performance assessment at Government agency".

⁸ The Code is originally meant for public listed companies.

⁹ The Circular is on "Establishment, role and responsibilities of financial management and accounting committee in federal government agencies".

of prior studies (e.g. Lim & Mckinnon, 1993; Tooley & Guthrie, 2007) and assumes that all items are equally important (e.g. Gandia & Archidona, 2008; Ismail & Abu Bakar, 2011).

Consistent with Ismail & Abu Bakar (2011), the total disclosure (TD) score is mathematically expressed as follows:

$$TD = \sum d_i$$

where TD is total disclosure for a FSB; $d = 1$, if the item d_i is disclosed; and $d = 0$, if the item d_i is not disclosed.

The Disclosure Index (DI) for each FSB is equal to TD/n , where n is the number of items. To provide for comparability among FSB, each FSB's measure is converted into a percentage (i.e. 100%).

4.1.2 Reliability Test on Disclosure Index

To address the issue of subjectivity inherent in the analysis of annual reports (Steenkamp & Northcott, 2007), two scorers were used. This process is mainly to ensure the reliability of the disclosure index instrument and the data collected from the annual reports. One is the researcher herself, while the other person is an experienced public sector accounting researcher who had conducted and published similar type of analysis on annual report for the last two years. The other scorer was provided with the 11 randomly selected annual reports of FSB together with the coding sheet, representing roughly 10 per cent of the population, consistent with Joseph (November 2010). Both scorers independently examined the text, and comparisons were then made on the results. There was no statistically significant difference between scores.

4.1.3 Data Collection

In 2008, there are a total of 118 FSB in Malaysia. However, for various reasons such as exemption granted to FSB from preparing annual reports resulted to only 111 applicable FSB for this the study, thus representing the study population. The study focuses only on annual reports for the year 2008. This is the year after the issuance of the Treasury Guideline

No.4/2007. Subsequent years (i.e. year 2009 onwards) are not included as most FSB are yet to table their 2009 annual reports to the Parliament during the data collection stage and therefore these years annual reports are not yet publicly available. One year study is also justified based on Botosan's (1997) argument that "disclosure policies appear to remain relatively constant over time". The decision to focus on only annual reports rather than other agency communication medium (such as websites, brochures, internal documents, etc) is made based on the assumption that "annual reports are regarded as the main medium of information dissemination by public agency to its stakeholders" (Wall & Martin, 2003; Wei, et al., 2008).

4.2 Phase Two: Determinants of Disclosure

The second objective of the study is to identify the determinants of disclosure level. Four variables are selected as predictors based on its perceived importance in FSB context by the researcher: reliance on federal, FSB size, accessibility of annual reports and board size.

4.2.1 Reliance on Federal

An agency relationship exists between FSB management who act as the agent and the fund providers that are the federal government and the larger public who act as the principal. Drawing from agency theory perspective, there is an incentive for the public manager/administration (i.e. management incentive) to use the grant for unintended purpose (Ingram & DeJong, 1987). To reduce information asymmetry, among the measures taken is the issuance of Treasury circular 4/2007 (TC4/2007) which outline items to be disclosed by FSB in their annual reports including the amounts of grants received, and how this amount is spent. In turn, decision to award grant may be partly based on the federal government's appraisal of the FSB management's quality and reputation (Ingram & DeJong, 1987) and the presented financial statements and annual reports of the FSB may form a basis of this appraisal. Thus, FSB management that does not provide accountability measures in their annual reports along with other information consistent with the reporting requirements may be at a disadvantage in receiving federal grants. Consequently, there would also be public censure which may adversely impact the public managers' managerial advancement and may place the FSB existing and future grants in jeopardy (Ingram & DeJong, 1987). Ingram (1984) in his study on local government noted that the more necessary it is for a municipality to receive funds from other bodies, the more it needs to report high-quality public financial

information. Consistent with agency theory, the public accountability paradigm also expected a positive association between disclosure and entity's reliance on public fund. Based on this paradigm, FSB relying proportionately higher on public money (i.e. federal grant) and generating proportionately less income of its own would be expected to show greater public accountability, and thus greater disclosure. Following this argument, the study therefore proposes a positive relationship between federal reliance and disclosure level, stated as follows:

H₁: There is a positive relationship between extent of accountability disclosure in the annual reports and the reliance of Malaysian federal statutory bodies on the federal government.

To measure this, the ratio of total grant revenue from federal to total revenues was used, consistent with prior studies (e.g. Robbins & Austin, 1986; Ingram, 1984).

4.2.2 FSB Size

One can expect that larger organisations will have greater disclosure level. Drawing from agency theory, larger firms have higher agency costs, compelling management to disclose more information to ease agency conflicts (Chow & Wong-Boren, 1987). Prior literatures have provided some possible explanations for this relationship: (i) the economies of scale; which relates to the cost of gathering, collecting and reporting information (Laswad et al., 2005), (ii) the number of activities; where larger organisation have relatively more activities and thus have more information to be reported. This in turn, may make them motivated to disclose more so as to show that they are acting optimally in managing the organisation (Anam, 2009), (iii) to reduce the potential conflicts that may occur between the management and stakeholders as their size or visibility make them more susceptible to management-stakeholders conflicts. Consequently, they are willing to "bear greater monitoring cost by supplying more information" (Baber, 1983). The study therefore states the hypothesis as:

H₂: There is a positive relationship between extent of accountability disclosure in the annual reports and the size of federal statutory bodies.

The size of a FSB was measured by the (log of) number of employees because it reflects the complexity of the organisation" (Marcuccio & Steccoloni, 2009). This is consistent with prior studies such as Mucciarone (2008) and Marcuccio & Steccoloni (2009). This will be a continuous variable and is available in the annual reports of FSB.

4.2.3 Accessibility of FSB Annual Reports

The study is also interested to test the influence of a less tested variable (i.e. accessibility of annual reports). Styles & Tennyson (2007) for example have found that the accessibility of the financial data provided on the Internet is positively associated with the quality of financial reporting. Similarly, this study expected a positive relationship between accessibility of annual reports and disclosure level. In other words, the easier to access FSB annual reports, the higher would be the disclosure level in their annual reports. This variable can be explained from public accountability perspective. The relative ease of public access to FSB annual report in part reflects the commitment towards transparency and accountability by the FSB management. Given the existence of this value in the organization (i.e. transparent management), it is also expected that they are more committed to publish more accountability information in their annual report. It is therefore argued that accessibility of FSB annual reports will be an appropriate predictor for disclosure level. The hypothesis is therefore, is stated as:

H₃: There is a positive relationship between extent of accountability disclosure in the annual reports and the accessibility of federal statutory bodies.

This variable will be measured by the availability of FSB 2008 annual report on their websites. This is consistent with Coy & Dixon (2004) who stated that “internet availability is an easily collected proxy measure of accessibility”.

4.2.4 Board Size

In the private sector literatures, board size has been studied as one of disclosure determinants related to governance mechanism (e.g. Al-Akra, Eddie, & Ali, 2010; Cerbioni & Parbonetti, 2007; Indra, 2010). Positive agency theory by Jensen and Meckling's (1976) provides a framework for linking disclosure behaviour to corporate governance by considering both as mechanisms of accountability. Consistent with this theory, previous studies indicate that a large board destroys corporate value and monitors activities less effectively (Cerbioni & Parbonetti, 2007). In essence, larger board increase problems of communication and coordination (Jensen,1993; Yermack, 1996). Larger board also may decrease board's ability to control management, thereby leading to agency problems stemming from the separation of

management and control. For that reason, literatures have suggested that board size is limited to a certain effective number, arguing that “while the board's capacity for monitoring increases as more directors are added, the benefit may be outweighed by the incremental cost of poorer communication and decision-making associated with larger groups” (John & Senbet, 1998). Although there have been no consensus on the effective board size (Indra, 2010), most studies quoted suggestions by Jensen (1993) that board size should be limited to seven or eight and that by Lipton & Lorsch (1992) who suggested 10 with 8 or 9 as the preferred number. Majority of prior studies have argued and found that smaller boards are more likely to function effectively (e.g. Adusei, 2011; Eisenberg, Sundgren, & Wells, 1998; Jensen, 1993; Lipton & Lorsch, 1992; Mak & Kusnadi, 2005; Yermack, 1996). Studies on board size and disclosure have shown mixed results. In private sector context, Al-Akra (2010) and Indra (2010) found positive association between board size and disclosure while Cerbioni & Parbonetti (2007) found a negative relationship. In public sector setting, Gordon et al. (2002) found negative but no significant relationship between board size and disclosure.

Hence, the hypothesis, in its alternate form, is stated as:

H₄: There is a negative association between the extent of accountability disclosure in the annual reports and the board size.

The measurement for this variable is the number of directors on the board at the end of the financial year. This information is available in the annual reports.

5.0 Results and Discussion

5.1 Phase One Results and Discussion: Level of Disclosure

Overall, a total of 102 annual reports were collected from the 111 FSB representing 91.1 per cent of the applicable population¹⁰.

Table 2 presents information on the minimum, maximum, mean, skewness and kurtosis of the disclosure index. It shows that the range of items disclosed in each FSB is between 27 and 80. On average, there are 53 items (out of 115 items) disclosed which represents 45.9% of the overall disclosure. This may indicate a low level of accountability disclosure in the annual reports of FSB.

Table 2: Descriptive Statistic for the Disclosure Index

Total Disclosure Items	Minimum Number of Disclosure	Maximum Number of Disclosure	Mean Disclosure	Standard Deviation	Skewness	Kurtosis
115	27 (23.5%)	80 (69.6%)	52.8 (45.9%)	8.3	0.225	0.242

Comparing the overall mean disclosure with prior studies on annual report disclosure indicates that Malaysian FSB annual report have relatively low level of disclosure. For example, Herawaty & Hoque (2007) who content analyzed the annual reports of Australian government department found the mean for their voluntary disclosure index at 65 per cent while the mandatory index at 58 per cent. Wei et al.'s (2008) study found their performance accountability disclosure score is 55 out of a maximum possible of 90 (i.e. 61.1%). Ismail & Abu Bakar (2011) on the other hand found 75.2 per cent disclosure level in their study on Malaysian universities annual reports, with all categories having index disclosure score of above 50 per cent. This comparison is however needed to cautiously make due to the differences in the index used by these studies.

¹⁰ However, the paper is prepared based on analysis on only 93 annual reports due to the time factor and thus represent only preliminary findings.

Overall, on average, information related financial information are disclosed most (62.6%) while governance-related information are least disclosed (20.9%) (refer **Table 3**). Low governance-related information is expected as the disclosure items for this category were mainly drawn from MCCG, a Code which is not directed towards a government agency such as FSB. Despite this, it is argued that given that FSB are expected to carry out government’s policy professionally and effectively through various programmes and activities (National Audit Department, 2008), necessary measures such as disclosing its governance information is deemed necessary and appropriate.

Table 3: Overall Mean Index Score by Category

Category	No. of Items	Overall Disclosure Mean	Rank
Overview	38	56.1%	2
Governance	22	20.9%	5
Financial	20	62.6%	1
Performance	20	49.6%	3
Others	15	33.6%	4
OVERALL	115	45.9%	

For the first category (i.e. Overview), on average, the highest disclosure is related to information on background of FSB (78.8%) while the lowest disclosure is on background of annual report (27.2%) (refer to **Table 4**). TC4/2007 requirement that FSB disclose the Parliamentary Act under which the latter was established and main activities of FSB has been generally observed by FSB. Additionally, all FSB have adhered to TC4/2007 requirement to disclose board members’ names. Similarly, content page was available in all FSB annual reports, consistent with Heraway & Hoque’s (2007) findings. However, index and glossary are disclosed by a meager 6 per cent of the FSB, unlike in Heraway & Hoque’s study that found more than 50 per cent of Australian government departments disclose these two information. There are several disclosure items which are disclosed by less than 5 per cent of FSB namely information on statutory process timeliness (annual report submission to Minister or Parliament), public accountability timeliness (publication of annual report), FSB business hours and FSB main lawyers.

Table 4: Descriptive Statistics of the OVERVIEW Category (8 Sub-categories)

ADIS NO.	DISCLOSURE ITEM	FREQUENCY	PERCENTAGE
BACKGROUND OF ANNUAL REPORT			
1	Content page	93	100.0%
2	Index/ glossary	6	6.5%
3	Statutory process timeliness: annual report submission to Minister/Parliament	0	0.0%
4	Public accountability timeliness: annual report publication	2	<u>2.2%</u>
<i>Mean for Background Of Annual Report</i>			27.2%
ACCESS INFORMATION			
5	Address of registered office	87	93.5%
6	Contact information (Telephone/fax/email)	75	80.6%
7	Webpage	79	84.9%
8	Business hours	2	<u>2.2%</u>
<i>Mean for Access Information</i>			65.3%
BACKGROUND OF STATUTORY BODIES			
9	Year of establishment	78	83.9%
10	Parliamentary Act under which FSB was established	77	82.8%
11	Governing ministry	51	54.8%
12	Role/ function/ main activities	87	<u>93.5%</u>
<i>Mean for Background of FSB</i>			78.8%
COMPANY OBJECTIVES AND PHILOSOPHY			
13	Vision and Mission	83	89.2%
14	Values/ethics/philosophy	30	32.3%
15	Aims/ goals/objectives	79	84.9%
16	Client charter	33	<u>35.5%</u>
<i>Mean for Company Objectives And Philosophy</i>			60.5%

Table 4 (Continued)

CORPORATE INFORMATION			
17	Organization chart	82	88.2%
18	Chairman: name	92	98.9%
19	Chief Executive: name	89	95.7%
20	External auditor	22	23.7%
21	Main bank(s)	14	15.1%
22	Main lawyer(s)	4	4.3%
23	List of main events in the year	51	<u>54.8%</u>
<i>Mean for Corporate Information</i>			54.4%
CHAIRMAN AND CEO MESSAGES			
24	Overall comments on programmes, activities and projects (PAP) of FSB	60	64.5%
25	Achievements and financial status of PAP of FSB & compare with previous years	52	55.9%
26	Events that influence the performance of PAP of FSB	68	73.1%
27	Future prospects and corporate strategies	58	62.4%
28	Growth and development of PAP	55	59.1%
29	Acknowledgement to contributors of the SB success	65	69.9%
30	Chief executive message	10	10.8%
31	Minister message	55	<u>59.1%</u>
<i>Mean for Chairman And Ceo Messages</i>			56.9%
BOARD OF DIRECTORS			
32	BOD: members' name	93	100.0%
33	BOD: secretary	35	37.6%
34	BOD: organisation represented	66	71.0%
35	BOD: members' term end/start	62	<u>66.7%</u>
<i>Mean for Board Of Directors</i>			68.8%
SENIOR EXECUTIVES			
36	Senior management: name and designation	81	87.1%
37	Senior management: education and qualification	17	18.3%
38	Senior management: skills and experience (know-how)	6	<u>6.5%</u>
<i>Mean for Senior Executives</i>			37.3%
<i>OVERALL MEAN FOR OVERVIEW CATEGORY</i>			56.1%

Table 5 shows that the highest disclosure for governance category is on internal audit (57.3%) while the lowest disclosure is related to senior management governance (3.6%). Internal audit information is related to recommendation proposed by the Malaysian Code on Corporate Governance (MCCG) and therefore it is safe to say that FSB has complied with this specific requirement. Low disclosure on senior management governance or remuneration is consistent with Ryan et al.'s (2002) study who found relatively and increasingly low disclosure (mean of 2.69 of 5) on senior executives' remuneration across three consecutive years (i.e.1997 to 1999).

Table 5: Descriptive Statistics of the GOVERNANCE Category (5 Sub-categories)

ADIS NO.	DISCLOSURE ITEM	FREQUENCY	PERCENTAGE
BOARD OF DIRECTORS GOVERNANCE			
39	BOD: members' education and qualification	22	23.7%
40	BOD: members' skills and experience of nonexecutive director	19	20.4%
41	BOD: number of meetings per year	42	45.2%
42	BOD: meeting dates	22	23.7%
43	BOD: attendance summary	17	18.3%
44	BOD: meeting attendance of each individual director	14	15.1%
45	BOD: remuneration policy or total amount	34	36.6%
46	BOD: remuneration amount listed by person	2	<u>2.2%</u>
Mean of Board Of Directors Governance			23.2%
SENIOR MANAGEMENT GOVERNANCE			
47	SM: remuneration amount of CEO	3	3.2%
48	SM: remuneration amount of other senior executives (total or individual)	7	7.5%
49	SM: how nature and amount of remuneration of senior executives is determined	0	<u>0.0%</u>
Mean of Senior Management Governance			3.6%
AUDIT COMMITTEE			
50	AC: activities	17	18.3%
51	AC: number of meetings	22	23.7%
52	AC: meeting attendance of each director	5	5.4%
53	AC: relevant training attended by each director	0	<u>0.0%</u>
Mean for Audit Committee			11.9%
FINANCIAL MANAGEMENT AND ACCOUNT COMMITTEE			
54	FMAC: members' name	13	14.0%
55	FMAC: required number of meetings	3	3.2%
56	FMAC: number of meetings	14	15.1%
57	FMAC: effectiveness of FMAC in handling financial issues	1	<u>1.1%</u>
Mean for FMAC			8.4%
INTERNAL AUDIT			
58	Independence of internal audit function	67	72.0%
59	Review and/or appraisal on effectiveness of risk management	76	81.7%
60	Review/appraisal of internal control systems	17	<u>18.3%</u>
Mean for Internal Audit			57.3%
OVERALL MEAN FOR GOVERNANCE CATEGORY			20.9%

Table 6: Descriptive Statistics of the FINANCIAL Category (4 Sub-categories)

ADIS NO.	DISCLOSURE ITEM	FREQUENCY	PERCENTAGE
AUDITED FINANCIAL STATEMENTS			
61	Balance sheet	93	100.0%
62	Income statement	92	98.9%
63	Statement of changes in equity	90	96.8%
64	Cash flow statement	90	96.8%
65	Notes to the financial statement	90	<u>96.8%</u>
Mean For Audited Financial Statements			97.9%
ACCOMPANYING CERTIFICATE AND STATEMENT			
66	Auditor general certificate	93	100.0%
67	Statement of Chairman and a Board member for the Group accounts	93	100.0%
68	Statutory declaration by the officer primarily responsible for the financial mgmt	93	<u>100.0%</u>
Mean for Accompanying Certificate And Statement			100.0%
ANALYSIS OF FINANCIAL PERFORMANCE			
69	Comparison figures/charts: on assets used	39	41.9%
70	Comparison figures/charts: on various source of finance	66	71.0%
71	Comparison figures/charts: on reserve	31	33.3%
72	Comparison figures/charts: on noncurrent liabilities	14	15.1%
73	Comparison figures/charts: on sales/receipts and gross profit margin	55	59.1%
74	Comparison figures/charts: on surplus/deficit or profit/loss	43	<u>46.2%</u>
Mean for Analysis Of Financial Performance			44.4%
FINANCIAL RATIOS			
75	Current ratio (Current assets/Current liabilities)	10	10.8%
76	Liquidity ratio (Liquid assets/Current liabilities)	11	11.8%
77	Debt asset ratio (Total debt/Total assets)	9	9.7%
78	Proprietor's ratio (Total equity / total liability)	6	6.5%
79	Total equity/total asset	8	8.6%
80	Assets turnover ratio	2	<u>2.2%</u>
Mean for Financial Ratios			8.3%
OVERALL MEAN FOR FINANCIAL CATEGORY			62.6%

For the financial category, the greatest disclosure is related to financial statements' accompanying certificate and statements with all FSB supplying this information (i.e.100 per cent) while 'financial ratios' is the least disclosed information (8.3%) (refer **Table 6**). Disclosure of financial ratios has been required by the MAMPU's (Malaysian Administrative Modernisation and Management Planning Unit) General Circular No.6 of year 2004 (GC6/2004) as well as by the TC4/2007. The former requires five financial ratios be disclosed in annual summary report¹¹ (i.e. current ratio, liquidity ratio, debt asset ratio, proprietors'

¹¹ Annual summary report of FSB is a 3-page summary on FSB overall performance in terms of financial management, operational efficiency and effectiveness and output quality to be submitted and tabled in the Cabinet meeting by the respective FSB Minister (MAMPU, 2004)

ration and ratio on total equity/total asset) while the latter requires that assets turnover ratio be disclosed in FSB annual reports. Although the GC6/2004 does not require the ratios to be disclosed in the main annual report, it is expected that an accountable FSB would disclose this important information. The importance is in fact reflected in the inclusion of this disclosure as required information in the 3-page annual summary report.

Table 7: Descriptive Statistics of the PERFORMANCE Category (4 Sub-categories)

ADIS NO.	DISCLOSURE ITEM	FREQUENCY	PERCENTAGE
KEY PERFORMANCE INDICATORS			
81	Key Performance Indicators	41	44.1%
82	Compare targeted KPI and actual achievement (in figure/percentage)	26	<u>28%</u>
<i>Mean for Key Performance Indicators</i>			36.1%
CUSTOMER/ EMPLOYEE SATISFACTION			
83	Customer satisfaction	14	15.1%
84	Staff satisfaction	5	5.4%
85	No. of complaints received on FSB	16	17.2%
86	No. of valid complaints resolved	15	<u>16.1%</u>
<i>Mean for Customer/ Employee Satisfaction Indicator</i>			13.5%
OVERVIEW OF PROGRAM/ACTIVITIES/PROJECTS (PAP)			
87	Objective and description of each PAP	91	97.8%
88	Implementation progress of each PAP	88	94.6%
89	Problems encountered in the implementation	30	32.3%
90	Factors (internal/external) influencing current performance	78	83.9%
91	Future plans	59	<u>63.4%</u>
<i>Mean for Overview Of Program/Activities/Projects (Pap)</i>			74.4%
PERFORMANCE OF PAP			
92	Input: Financial resources	74	79.6%
93	Input: Non-financial resources applied to a PAP	76	81.7%
94	Output	93	100.0%
95	Impact	64	68.8%
96	Efficiency	26	28.0%
97	Effectiveness	72	77.4%
98	Productivity	76	81.7%
99	Compare between actual and target performance	62	66.7%
100	Compare between current and previous year	79	<u>84.9%</u>
<i>Performance of PAP</i>			74.3%
<i>OVERALL MEAN FOR PERFORMANCE CATEGORY</i>			49.6%

From **Table 7**, highest disclosure can be seen related to information on programmes, activities and projects, both regarding their overview (74.4%) and performance (74.3%). Information on customer or employee satisfaction is least disclosed (13.5%). Within this category, the least disclosed item is on employee satisfaction (5.4%). This is consistent with Wei et al.'s (2008) who found an even worst scenario where none of the museums in the UK and New Zealand disclose this information in their annual reports. The second least disclosed item within performance category is the customer satisfaction (15.1%). This may not be a favorable situation as prior study by Tooley et al. (2010) has found this as a very important information as perceived by stakeholders of Malaysian public sector, in particular in the local government context. The same situation is expected in the case of FSB.

Table 8: Descriptive Statistics of the OTHERS Category (3 Sub-categories)

ADIS NO.	DISCOSURE ITEM	FREQUENCY	PERCENTAGE
HUMAN RESOURCE			
101	Statistics on staffing (e.g.total staff, vacancies)	80	86.0%
102	Workforce planning, staff turnover and retention	49	52.7%
103	Equal opportunity employment (e.g.staff by race/gender/age)	8	8.6%
104	Statistics on training and development courses/programmes for staff	65	69.9%
105	Achievements/impact of staff training and development activities (general/each)	21	22.6%
106	Staff recognition through awards/rewards/titles	42	45.2%
107	Staff recognition: Names of awards/titles/rewards recipients	18	<u>19.4%</u>
Mean for Human Resource			43.5%
SOCIO-ENVIRONMENTAL			
108	Internal/external social responsibility efforts/activities	67	72.0%
109	Financial information on social responsibility issues (budget/cost)	46	49.5%
110	Internal/external environmental protection efforts/activities	22	23.7%
111	Financial information on environmental issues (budget/cost)	4	<u>4.3%</u>
Mean for socio-environmental			37.4%
MAIN ASSETS			
112	List of main assets: location	20	21.5%
113	List of main assets: ownership	12	12.9%
114	List of main assets: size (area)	20	21.5%
115	List of main assets: description/type	22	<u>23.7%</u>
Mean for Main Assets			19.9%
OVERALL MEAN FOR OTHERS CATEGORY			33.6%

Table 8 shows that under the ‘Others’ category, all three subcategories (i.e. human resource, socio-environmental and properties) have a disclosure mean of less 50 per cent with information on properties or main assets showing the least disclosure (i.e. 19.9 per cent). This is somewhat consistent with study by Herawaty & Hoque (2007) who find a low disclosure level on human resource and asset management information. It can be concluded that the TC4/2007 requirement that FSB main assets are disclosed are not observed by the latter.

The study in general found that there are three items which were not disclosed by any of the FSB, namely information on statutory process timeliness, how nature and amount of remuneration of senior executives is determined, and the relevant training attended by each audit committee member. On the other hand, all FSB disclosed seven disclosure items (refer to **Table 9**).

Table 9: Number of Disclosure Items with 0 and 100 per cent Mean Disclosure

Mean	Frequency	Disclosure Items
100 per cent	7 items	(1) Content page; (32) BOD members’ name; (61) Balance Sheet; (66) Auditor general certificate; (67) Statement of Chairman and a Board member; (68) Statutory declaration by the officer primarily responsible for the financial management; (94) Output
0 per cent	3 items	(3) Statutory process timeliness; (49) SM: how nature and amount of remuneration of senior executives is determined; (53) AC: relevant training attended by each director

5.2 Phase Two Results and Discussions: Determinants of Disclosure

5.2.1 Descriptive Statistics

Table 10 provides a summary of the descriptive statistics for the explanatory variables. From the total sample of 93 FSB, 90 provided information for number of employees. The mean for Reliance on Federal (RELFED) variable is 54% which is relatively high compared to other studies (e.g. Giroux & McLelland, 2003). The original number of employees which supposed to measure SIZE show on average, FSB has 1439 staff (min.: 0; max: 14,804; S.D.:2450, skewness: 3.142). The log of number of employees was used for analysis. On average, 23% FSB provided their annual reports on website. This measures the accessibility (ACCES) of FSB annual report. The size of board (BODSIZE) in FSB ranges from 5 to 19, with an average size of 10.

Table 10 : The Descriptive Statistics of the Explanatory Variables

Variable	<i>n</i>	Minimum	Maximum	Mean	Std. Deviation	Skewness
Reliance on Federal (RELFED)	93	0	0.73	.54	.38	-.285
Log of No. of Employees (SIZE)	90	0.3	4.17	2.62	0.796	-0.502
Available on website (ACCESS)	93	0	1	.23	.42	1.308
Board Size (BODSIZE)	93	5	19	10.25	3.32	.853

n : sample size and excluded samples that have missing values

5.2.2 Statistical Results

The relationship between Disclosure Index and predictors are presented in the below equation:

$$DI_i = a + b_1RELFED_i + b_2SIZE_i + b_3ACCESS_i - b_4BODSIZE_i$$

where predictors are as defined above, and

DI Disclosure Index

i FSB specific

a Constant

b Coefficients on continuous variables

Table 11 presents the correlation matrix for the four predictors. This table shows that the highest correlation exists between RELFED and ACCES with a correlation value of 0.147. This lessens concerns about multicollinearity in the regression analysis.

Table 11: Correlation Matrix for the Independent Variables

	RELFEED	SIZE	ACCESS	BOARDSIZE
RELFEED	1			
SIZE	.144 *	1		
ACCESS	-.147*	-.015	1	
BOARDSIZE	.138*	-.108	.115	1

*Correlation is significant at the 0.05 level (2-tailed)

Regressions were run to test the association between a set of four predictors and disclosure level. The multiple regression results are presented in **Table 12**. Based on the results, the estimated regression equation is as follows:

$$DI_i = 34.48 - 5.06RELFEED_i + 5.01SIZE_i + 6.71ACCESS_i + 0.03BOARDSIZE_i$$

The proportion of explained variance as measured by R Square for the regression equation is 0.317. In other words, 31.7% of the variation in disclosure level is explained by the predictors. Overall results reveal that three variables help explain disclosure level with different levels of significance (refer **Table 12**). FSB size (SIZE) and annual reports accessibility (ACCESS) are highly significant factors for disclosure level with a *p* value of 0.0001 and 0.001 respectively. Reliance on federal government (RELFEED) on the other hand is significant at *p* value of 0.024. Board size (BOARDSIZE) was the only variable that did not help explain the disclosure level. Consistent with the *p* values, the beta values seemed to indicate that FSB size (SIZE) as the most important predictor (beta= 0.503), followed by accessibility of annual reports (ACCES) (beta=0.335), reliance on federal (RELFEED) (beta value = -0.233) and lastly board size (BOARDSIZE) (beta value=0.012).

Table 12: Multiple Regression Results

	Predictors	Predicted sign	Actual Sign	<i>p</i> value	Standardized coefficients	Hypothesis supported/ not supported
H ₁	RELFEED	+	-	0.024**	-0.233	Not support
H ₂	SIZE	+	+	0.0001*	0.503	Support
H ₃	ACCESS	+	+	0.001*	0.335	Support
H ₄	BOARDSIZE	-	+	0.899	0.012	Not support
	<i>n</i>					90
	Adjusted <i>R</i> ²					0.317

*Highly significant at *p*<.01 level, **Significant at *p*<.05 level, n.s.: not significant

Although reliance on federal (RELFEED) help explains disclosure level, it is negatively related with disclosure. H_1 is therefore, not supported due to the opposite directions of its signs. This finding is consistent Robbins & Austin (1986) and Copley (1991). A plausible explanation for this is that the substantial portion of federal funding may “serve to insulate [an entity] from influence-attempts” of the interest groups (Cheng, 1992). Copley (1991), on the other hand, provided explanation by looking at the different side of the same coin. He argued that the anticipated positive effect of this variable may be limited by the complement of its own measure, i.e. the proportion on self-generated revenue. In other words, lower proportion of reliance on federal, for example, may require a relatively high proportion of revenue generated internally. In the context of FSB, its internally-generated revenue may comprise licensing fees and compounds (for regulatory-related FSB) and students’ fees (for education and research-related FSB). Therefore, again agency relationship exists in this context, i.e. between FSB management and the provider of their self-generated income which may be the wider public. Following this, drawing from agency theory perspective, as the proportion of the internally-generated revenue increase, FSB have greater incentive to demonstrate to the stakeholders and wider public that the fund is responsibly expended (Copley, 1991), suggesting a negative relationship between reliance on federal and disclosure.

Regarding board size (BODSIZE), the study finds it to be not a significant predictor for disclosure level. Thus, H_4 is not supported. FSB with less members on the governing board did not disclose more information than FSB with more members. There are prior studies that do not find significant relationship between board size and disclosure for example Gordon et al. (2002). Additionally, results also indicate that the direction was opposite to the hypothesized direction. The insignificant result on board size (BODSIZE) imply that governing board size are not related to disclosure level, which is one important accountability tool. This may bring rise to the question of board effectiveness. An important policy implication is that the policymakers may need to assess the role of governing body in FSB in promoting public accountability. Cost-benefit analysis may be conducted on FSB governing body to determine the appropriate and effective number of members in FSB governing body to avoid using more of public funds to support an ineffective function.

The study found support for H_2 and H_3 . Therefore, the larger SIZE of FSB (SIZE), the more disclosure are provided in the annual reports. Similarly, more information are disclosed by

FSB that allow greater access to their annual report (ACCESS). These findings may allow the FSB stakeholders to make certain predictions on whether a particular FSB has satisfactorily fulfil its accountability function through necessary disclosure.

6.0 Conclusion

The first objective of the study is to determine the level of disclosure in the annual reports of Malaysia FSB. Overall, the study found FSB provides a moderate level of disclosure in their annual report (i.e. 45.9%). The disclosure level ranges from 23.5% to 69.6%. The most disclosed category of information is financial (62.6%), followed by overview (56.1%), performance (49.6%), others (33.6%) and finally governance (20.9%). All FSB disclosed seven disclosure items namely: content page, board of directors' member names, Balance Sheet; Auditor general certificate, Statement of Chairman and a Board member, Statutory declaration by the officer primarily responsible for the financial management and output. There are on the other hand, three items were not disclosed by any of the FSB, namely information on statutory process timeliness, how nature and amount of remuneration of senior executives is determined, and the relevant training attended by each audit committee member.

The second objective is to determine the predictors of disclosure level found in objective one. The predictability power of regression is 0.317 as measured by R square. Overall results found support to two out of four hypotheses although three variables are significant. H₁ was not supported indicating a significant negative relationship between FSB reliance on federal and disclosure level. H₂ and H₃ were supported suggesting a positive relationship between disclosure level and FSB size and accessibility of FSB annual report, respectively. H₄ was not supported implying the there is no relationship between number of members on FSB governing board and the disclosure level.

These findings is hoped to provide some insights on FSB accountability. It is proposed that policy makers develop several mechanisms such as mandatory disclosure requirements towards promoting greater public disclosure among FSB. The current circulars (e.g. TC4/2007) are by nature non-obligatory and no penalties are imposed on non-complying FSB. There is also a need to relook into policies on placing government representatives on FSB governing board as the study do not find any relation between board size and disclosure level suggesting number of directors on the board may not have much impact towards public

accountability agenda in FSB. Cost-benefit analysis is suggested to be undertaken by FSB managers or policy makers to determine the effective board size. Efforts also need to be taken to allow greater accessibility towards FSB annual reports or other public documents by public sector agencies as it has been indicated from the results that this has some bearing towards greater disclosure and thus accountability.

No studies are without limitations. This study was conducted for the year 2008 annual report, which is only a year after the guidance was published and implemented (i.e. year 2007). Therefore, results shown may reflect the adjustment period. Second, the findings are confined to the Malaysian FSB setting and should not be generalized to the other public sector settings or other countries. Third limitation relates to the subject matter itself, i.e. disclosure of information. Marston and Shrivies (1991, p. 208) caution applies here, that "... measuring of information disclosures cannot be carried out in a precise scientific way ..." and that "... research subjectivity cannot be completely removed, nor is it reasonable to expect that it can be". In this regard, necessary measures are however have been be undertaken to address the subjectivity issues.

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Appendix 1: Accountability Disclosure Index for Statutory Bodies (ADIS) and Its Main Sources

Subcategory	No.	Disclosure Item	Main Source
CATEGORY: OVERVIEW			
BACKGROUND OF ANNUAL REPORT	1	Content page	Herawaty & Hoque (2007)
	2	Index/ glossary	Herawaty & Hoque (2007)
	3	Statutory process timeliness: annual report submission to Minister/Parliament	Coy et al. (1994), Lim & McKinnon (1993)
	4	Public accountability timeliness: annual report publication	Coy et al. (2004,1994)
ACCESS INFORMATION	5	Address of registered office	TC4-2007
	6	Contact information (Telephone/fax/email)	Lim & McKinnon (1993)
	7	Webpage	Herawaty & Hoque (2007)
	8	Business hours	Lim & McKinnon (1993)
BACKGROUND OF STATUTORY BODIES	9	Year of establishment	Gray & Haslam (1990)- implicit (history)
	10	Parliamentary act under which SB was established	TC4-2007
	11	Governing ministry	
	12	Role/ function/ main activities	TC4-2007
COMPANY OBJECTIVES AND PHILOSOPHY	13	Vision and Mission	Ryan et al. (2002)
	14	Values/ethics/philosophy	Schneider, & Samkin (2008)
	15	Aims/ goals/objectives	Ryan et al. (2002)
	16	Client charter	Lim & McKinnon (1993)
CORPORATE INFORMATION	17	Organization chart	TC4-2007
	18	Chairman: name	TC4-2007
	19	Chief Executive: name	TC4-2007
	20	External auditor	TC4-2007
	21	Main bank(s)	
	22	Main lawyer(s)	
	23	List of main events in the year	TC4-2007
CHAIRMAN AND CEO MESSAGES	24	Overall comments on programmes, activities and projects (PAP) of FSB	TC4-2007
	25	Achievements and financial status of PAP of FSB & compare with previous years	TC4-2007
	26	Events that influence the performance of PAP of FSB	TC4-2007
	27	Future prospects and corporate strategies	TC4-2007
	28	Growth and development of PAP	TC4-2007
	29	Acknowledgement to contributors of the SB success	TC4-2007
	30	Chief executive message	Herawaty & Hoque (2007)
	31	Minister message	Review of FSB annual reports

Appendix 1 (Continued)

BOARD OF DIRECTORS	32	BOD: members' name	TC4-2007
	33	BOD: secretary	Lim & McKinnon (1993)-implicit
	34	BOD: organisation represented	Lim & McKinnon (1993)-implicit
	35	BOD: members' term end/start	Lim & McKinnon (1993)-implicit
SENIOR EXECUTIVES	36	Senior management: name and designation	Herawaty & Hoque (2007)
	37	Senior management: education and qualification	Schneider, & Samkin (2008)
	38	Senior management: skills and experience (know-how)	Schneider, & Samkin (2008)
CATEGORY: GOVERNANCE			
BOARD OF DIRECTORS GOVERNANCE	39	BOD: members' education and qualification	MCCG
	40	BOD: members' skills and experience of nonexecutive director	MCCG
	41	BOD: number of meetings per year	MCCG
	42	BOD: meeting dates	TC4-2007
	43	BOD: attendance summary	TC4-2007
	44	BOD: meeting attendance of each individual director	MCCG
	45	BOD: remuneration policy or total amount	Ryan et al. (2002)
	46	BOD: remuneration amount listed by person	MCCG, Ryan et al. (2002)
SENIOR MANAGEMENT GOVERNANCE	47	SM: remuneration amount of CEO	Ryan et al. (2002)
	48	SM: remuneration amount of other senior executives (total or individual)	IFAC 2001
	49	SM: how nature and amount of remuneration of senior executives is determined	Herawaty & Hoque (2007)
AUDIT COMMITTEE	50	AC: activities	MCCG
	51	AC: number of meetings	MCCG
	52	AC: meeting attendance of each director	MCCG
	53	AC: relevant training attended by each director	MCCG
FINANCIAL MANAGEMENT AND ACCOUNT COMMITTEE	54	FMAC: members' name	TC10-2008
	55	FMAC: required number of meetings	TC10-2008
	56	FMAC: number of meetings	TC10-2008
	57	FMAC: effectiveness of FMAC in handling financial issues	TC10-2008
INTERNAL AUDIT	58	Independence of internal audit function	MCCG
	59	Review and/or appraisal on effectiveness of risk management	MCCG
	60	Review/appraisal of internal control systems	MCCG, Tooley et al.(2010)

Appendix 1 (Continued)

CATEGORY: FINANCIAL			
AUDITED FINANCIAL STATEMENTS	61	Balance sheet	TC4-2007
	62	Income statement	TC4-2007
	63	Statement of changes in equity	TC4-2007
	64	Cash flow statement	TC4-2007
	65	Notes to the financial statement	TC4-2007
ACCOMPANYING CERTIFICATE AND STATEMENT	66	Auditor general certificate	TC4-2007
	67	Statement of Chairman and a Board member for the Group accounts	TC4-2007
	68	Statutory declaration by the officer primarily responsible for the financial mgmt	TC4-2007
ANALYSIS OF FINANCIAL PERFORMANCE	69	Comparison figures/charts: on assets used	TC4-2007
	70	Comparison figures/charts: on various source of finance	TC4-2007
	71	Comparison figures/charts: on reserve	TC4-2007
	72	Comparison figures/charts: on noncurrent liabilities	TC4-2007
	73	Comparison figures/charts: on sales/receipts and gross profit margin	TC4-2007
	74	Comparison figures/charts: on surplus/deficit or profit/loss	TC4-2007
FINANCIAL RATIOS	75	Current ratio (Current assets/Current liabilities)	GC6-2004, TC4-2007
	76	Liquidity ratio (Liquid assets/Current liabilities)	GC6-2004, FMAI-2008, TC4-2007
	77	Debt asset ratio (Total debt/Total assets)	GC6-2004, TC4-2007
	78	Proprietor's ratio (Total equity / total liability)	GC6-2004
	79	Total equity/total asset	GC6-2004
	80	Assets turnover ratio	TC4-2007
CATEGORY: PERFORMANCE			
KEY PERFORMANCE INDICATORS	81	Key Performance Indicators	DAC2-2005
	82	Compare targeted KPI and actual achievement (in figure/percentage)	Wall & Martin (2003)
CUSTOMER/EMPLOYEE SATISFACTION INDICATOR	83	Customer satisfaction	Tooley et al. (2010)
	84	Staff satisfaction	Wei et al. (2008)
	85	No. of complaints received on FSB	MAMPU (2002), Lim & McKinnon (1993)
	86	No. of valid complaints resolved	MAMPU (2002)
OVERVIEW OF PROGRAM/ACTIVITIES/PROJECTS (PAP)	87	Objective and description of each PAP	TC4-2007
	88	Implementation progress of each PAP	TC4-2007
	89	Problems encountered in the implementation	TC4-2007
	90	Factors (internal/external)influencing current performance	TC4-2007
	91	Future plans	TC4-2007

Appendix 1 (Continued)

PERFORMANCE OF PAP	92	Input: Financial resources	Tooley et al. (2010)
	93	Input: Non-financial resources applied to a PAP	Tooley et al. (2010)
	94	Output	Tooley et al. (2010)
	95	Impact	Tooley et al. (2010)
	96	Efficiency	Tooley et al. (2010)
	97	Effectiveness	Tooley et al.(2010)
	98	Productivity	Tooley et al.(2010) / MPC (2008)
	99	Compare between actual and target performance	Tooley et al.(2010)
	100	Compare between current and previous year	Tooley et al.(2010)
CATEGORY: OTHERS			
HUMAN RESOURCE	101	Statistics on staffing (e.g.total staff, vacancies)	Herawaty & Hoque (2007)
	102	Workforce planning, staff turnover and retention	Herawaty & Hoque (2007)
	103	Equal opportunity employment (e.g. staff by race/gender/age)	
	104	Statistics on training and development courses/programmes for staff	Herawaty & Hoque (2007)
	105	Achievements/impact of staff training and development activities (general/each)	Tooley et al. (2010)
	106	Staff recognition through awards/rewards/titles	Herawaty & Hoque (2007)
	107	Staff recognition: Names of awards/titles/rewards recipients	Herawaty & Hoque (2007)
SOCIO-ENVIRONMENTAL	108	Internal/external social responsibility efforts/activities	Joseph (2010)
	109	Financial information on social responsibility issues (budget/cost)	Joseph (2010)
	110	Internal/external environmental protection efforts/activities	Joseph (2010), Tooley et al. (2010)
	111	Financial information on environmental issues (budget/cost)	Joseph (2010)
PROPERTIES/MAIN ASSETS	112	List of main assets: location	TC4-2007
	113	List of main assets: ownership	TC4-2007
	114	List of main assets: size (area)	TC4-2007
	115	List of main assets: description/type	TC4-2007

*TC4-2007 refer to the Treasury Circular No. 3 of 2007

G6-2004 refers to the General Circular Letter No. 6 of 2004

DC2-2005 refers to the Development Administration Circular No. 2 of 2005

MCCG refers to the Malaysian Code on Corporate Governance

TC10-2008 refers to Treasury Circular Number 10 of 2008

IFAC 2001 refers to IFAC Public Sector Committee's recommendation in "Governance in the Public Sector: A Governing Body Perspective"