

FINAS' UNSATISFACTORY FINANCIAL MANAGEMENT PERFORMANCE BASED ON THE 2012 AUDITOR GENERAL'S REPORT ON THE FINANCIAL STATEMENT VALIDATION & FINANCIAL MANAGEMENT OF FEDERAL STATUTORY BODIES

WEDNESDAY, 22 JANUARY 2014 AND TUESDAY, 20 MAY 2014

1. BACKGROUND

1.1 National Film Development Corporation Malaysia (FINAS) was established in 1981 through the Film Development Corporation of Malaysia Act 1981 (Amendment 1984) Act 244 (Amendment of the Act A589). In 2013, the act has been amended (Amendment of the Act A1451) in line with the merger of FINAS with the National Film Department of Malaysia (FNM) came into force on 1 April 2013. FINAS began operations on 1 November 1981 under the Ministry of Trade and Industry Malaysia. Beginning 16 October 1986, FINAS was placed under the Ministry of Information. Then, beginning on 27 March 2004, FINAS was placed under the Ministry of Culture, Arts and Heritage (KEKKWA). From 9 April 2009, FINAS was placed under the Ministry of Information, Communication and Culture (MICC). On 15 May 2013, FINAS was placed under the Ministry of Communications and Multimedia Malaysia (MCMM). The establishment of FINAS' objective is to nurture, promote and facilitate the development of the film industry in Malaysia.

1.2 The financial management of FINAS for 2012 is unsatisfactory which caused the Auditor General to issue a Disclaimer Certificate to FINAS for the financial statement for the year ended 31 December 2012 and received one star rating for financial management (Accountability Index) in 2012.

2. OBJECTIVE OF THE DISCUSSION

The Public Accounts Committee (PAC) has discussed the issue of the FINAS' financial management performance that has been raised in the Auditor General's Report 2012. In accordance with the mandate granted under Article 77 of the Standing Orders of the House of Representatives and Article 304(a) of the Treasury Instructions (Amendment 2008), the Committee has made an examination on this matter with a view to:

- a. Ensure that the financial statements reflects the truth and fairness
- b. Internal controls exist and are implemented effectively
- c. Ensure the advances granted are managed properly;
- d. Ensure that assets are managed properly and the asset registration is up to date; and
- e. Ensure the financial management is carried out regularly in accordance to the existing procedures and regulations.

3. SCOPE AND METHODOLOGY

3.1 Discussion has been conducted for 2 sessions which were on 22 January 2014 and 20 May 2014 through these approaches:

- a. Invited the Director of Federal Statutory Bodies Audit Sector, National Audit Department to provide clarification on the raised issues;
- b. Called the parties involved in Financial Management and Financial Statement of FINAS which were the MCMM and FINAS including the former Secretary General of the MCMM and former Director General of FINAS; and
- c. Invited the representatives of central agencies such as the Ministry of Finance; Accountant General's Department of Malaysia; Public Service Department of Malaysia and the Economic Planning Unit to attend together.

4. OUTCOMES OF THE DISCUSSION

The discussion session started with the explanation on the respective issues by the Director of Federal Statutory Bodies Audit Sector, National Audit Department to the PAC. Later then, the involved parties on the raised issues which were MCMM represented by Dato' Sri Abdul Rahim bin Mohamad Radzi (Secretary General of MCMM) and Dato' K.Bala Singam (Senior Under Secretary of Management at the MCMM) and FINAS which was represented by YM. Raja Rozaimie bin Raja Dalnish Shah (Director General of FINAS) were called to testify. PAC also called former Secretary General of MCMM, Datuk Sri Kamaruddin bin Siaraf (From 2007 until 2013) and former Director General of FINAS, Datuk Mohd Mahyidin bin Mohd Mustakim (From August 2006 to June 2011) and Mr. Mohd Naguib bin Razak (From September 2011 to August 2012) to testify. Matters discussed are summarized as follows:

4.1 Introduction Regarding the Disclaimer Certificate issued by the Auditor General on the FINAS' Financial Statement For The Year Ended 31 December 2012

- a. The Director of Federal Statutory Bodies Audit Sector, National Audit Department informed that in 2008, FINAS has received a Qualified Certificate whereas in 2009 and 2010, FINAS has received the Unqualified Certificate. However in 2011, FINAS has received the Qualified Certificate again and in 2012, FINAS has received the Disclaimer Certificate. Among the reasons that the issuance of Audit Disclaimer Certificate are because:
 - i. The Money Balance in the bank amounted RM29.08 million as disclosed in the Financial Statement could not be verified for the accuracy as FINAS does not provide Bank Reconciliation Statement from August to December 2012 for the current account at the bank;

- ii. The net value of Property, Plant and Equipment amounted RM88.02 million as disclosed in the Financial Statement could not be verified because the asset registration of FINAS was not properly maintained and updated. Disposal and loss of assets in 2011 and 2012 as well as the purchase of assets for the current year were not recorded in the asset registration. This has affected the allocation of depreciable amount for the current year as shown in the Financial Statement;
 - iii. Cash Advances Account includes cash advances paid to the organization on behalf of the Ministry and personal cash advance to FINAS' employees for the purpose of a program such as official duties in the state or abroad to attend meetings / seminars / international exhibitions and so on. Audit authorities could not verified the amount of advances amounted RM5.06 million as FINAS did not completely and properly maintain the cash advance registration; and
 - iv. Cash Flow Statement is one of the statements to the FINAS' Financial Statement. Cash received from customers, cash payments to suppliers and employees as well as interest received amounted RM182.04 million as disclosed in the Financial Statement could not be verified.
- b. In addition, the National Audit Department also has conducted the audit of the financial management (Accountability Index) in 2009 and FINAS has received 2 stars only. As the audit should be carried out once in 3 years, in 2012, the audit has been carried out again and the level of FINAS' financial performance has deteriorated with a rating of one star. Among the weaknesses highlighted are as follows:
- The Quarterly Report of Financial and Account Management Committee for 2012 were not submitted to the Ministry.

- Audit Committee was only met 3 times in 2011. The quarterly report was not prepared and presented to the Board. The Annual Report of the Internal Audit Unit was not provided and submitted to the Director General and Secretary General of the Ministry.
- A total of 78 virement in 2011 and 8 in 2012 were not approved by the Director General.
- Personal Cash Advance and Miscellaneous Cash Advance Registration were not maintained. Advance payment was not paid in accordance to the prescribed period and no penalties were imposed.
- FINAS' Government Movable Asset Management Committee (JKPAK) had not met since 2010 and the Asset Management Unit was not established.
- The usage of petrol indent card and Touch 'n' Go were not well controlled and there were no records to show the return of it after use.
- FINAS did not establish an Investment Committee and did not provide policies and procedures related to fixed deposit investment and regular monitoring to monitor the investment.

4.2 Remarks by National Film Development Corporation Malaysia

Explanation, responses, actions taken and current status of the Audit findings on the Financial Statement for the year ended 31 December 2012 and financial management in 2009 and 2012 are as follows:

4.2.1 Financial Statement For The Year Ended 31 December 2013

- a. The Money Balance in the bank amounted RM29.08 million as disclosed in the Financial Statement could not be verified for the accuracy as FINAS does not provide Bank Reconciliation Statement from August to December 2012 for the current account at the bank.**

FINAS' Review:

- YM Raja Rozaimie bin Raja Dalnish Shah, the Director General of FINAS informed that the failure to provide the Bank Reconciliation Statement within the prescribed period was due to the heavy workload. In 2012, the number of vouchers processed was 5,238 compared to 2011 which was 4,620 vouchers. This does not include other tasks that need to be run at the same time such as receipts and claims. FINAS has been given also the responsibility of managing the National Creative Industry Policy (DIKN), National Key Economic Areas (NKEA) and requests from MCMM has reached RM140 million in addition in managing the provision of FINAS amounted RM40 million. The management was run by 13 employees of the existing Finance Division.
- Mr. Tan Kiah Khun, Director of Finance of FINAS informed that only Accountant and Assistant Accountant have the credibility in accounting and other staffs which have been appointed since 1981 were only the Clerk and have no specialization in accounting. Moreover, FINAS uses the SAGA Version 3.0 accounting system of the pioneer company, the Konsortium Jaya Sdn. Berhad since 2007.
- Dato' Sri Rahim bin Mohamad Radzi, Secretary General of MCMM informed that the Bank Reconciliation Statement for August to December 2012 has been prepared in full and reconciliation statement for 2013 has also been prepared to be audited.

b. The net value of Property, Plant and Equipment amounted RM88.02 million as disclosed in the Financial Statement could not be verified because the of asset registration of FINAS were not properly maintained and updated. Disposal and loss of assets in 2011 and 2012 as well as the purchase of assets for the current year were not recorded in the asset registration. This has affected the allocation of depreciable amount for the current year as shown in the Financial Statement.

FINAS' Review:

- YM Raja Rozaimie bin Raja Dalnish Shah, Director General of FINAS informed that asset registration for 2012 amounted RM88.02 million has been maintained and updated. Coordination on the depreciable amount for 2012 amounted RM12.73 million has been accounted in the financial statement for the year ended 31 December 2013 and the disposal amounted RM99, 832 in 2012 will be accounted in the financial statement for the year ended 31 December 2013. In addition, no loss of property was reported in 2011 and 2012.
- Dato' Sri Rahim bin Mohamad Radzi, Secretary General of MCMM informed that FINAS has also maintained and updated the asset registration for 2013 amounted RM65.12 million. The allocation of depreciable amount for 2013 amounted RM13.08 million and disposals of assets amounted RM4.48 million have been accounted in the financial statement for the year ended 31 December 2013. FINAS has taken action to update the system and to ensure that it is updated and current.

- Mohd. Shahrizal Shazuan bin Mohd. Saufi, Accountant of FINAS informed that the approval of disposal is under the jurisdiction of the Board of Directors of FINAS. For the FINAS' assets after merging with FNM, FINAS was not able to confirm the number of FNM's assets for the year ended 31 December 2013, which must be accounted in the financial statement of FINAS. This amount will be accounted by FINAS in the 2014 financial year after the confirmation on the amount and the condition of assets have been ascertained, evaluated and verified.

c. Cash Advances Account includes cash advances paid to the organization on behalf of the Ministry and personal cash advance to FINAS' employees for the purpose of a program such as official duties in the state or abroad to attend meetings / seminars / international exhibitions and so on. Audit authorities could not verified the amount of advances amounted RM5.06 million as FINAS did not completely and properly maintain the cash advance registration.

FINAS' Review:

- Dato' Sri Rahim bin Mohamad Radzi, Secretary General of MCMM informed that FINAS has established a task force consists of the officers in the Finance Division on 10 September 2013 to collect back all the advance debts. The cash advance registration has been properly organized. Collection has been made amounted RM2,021, 779 according to the following breakdown:
 - Personal and miscellaneous cash advances totaling RM561,070; and
 - Advances to the Ministry amounted RM1, 460, 729.

- FINAS continued to collect the rest of the advances totaling RM3, 038, 201 as follows:
 - A total of RM811,755 is being solved through payroll deductions and adjustments to the claims of officers for 2014;
 - FINAS has also updated the list of individuals to determine whether the officers involved had already retired, stopped working or died; and
 - Advance to the Ministry with a total of RM2, 226, 446 is being coordinated by the Ministry of Tourism and Culture Malaysia.
- Datuk Sri Kamaruddin bin Siaraf, Former Secretary General of MCMC informed that the advances will be provided from time to time but usually the recoverability is 100%. This is due to advances to officers are only 70%, and when the officer made the claim, the claims submitted usually exceeds the amount of advances which have been provided. However, what happened was the financial officer who coordinates the account did not ensure the claim was made promptly. Financial officer did not give order to have the payroll deductions for those officers who do not repay the advances. About advances to the Ministry, there were times when the Ministry requires cash payments made to the artists but did not able to withdraw the cash. Therefore, the Ministry asked FINAS to do advance payment and the Ministry will reimburse immediately. Normally, the Finance Division of the Ministry will deal with the finance officers from FINAS. However, due to inefficient finance officers in FINAS, this matter has been delayed. This can be avoided if FINAS has an efficient Finance Department. The control from the Controlling Officer on the financial of FINAS is through meetings held from time to time. A Ministry has a finance and account

committee, development committee and weekly management meetings. Through these meetings, the Ministry can control the governance of FINAS. This is because the Director General of FINAS at that time was one of the members in the committee. Moreover, FINAS as a statutory body has its own Board of Directors and it has its own accounts committee as well as its own internal audit committee.

- Dato' K. Bala Singam, Senior Under Secretary of Management at the MCMM informed that FINAS has tightened the procedures for personal and miscellaneous cash advance applications and which officers who have obtained the advances are required to settle the claims in the near future. If the officer does not make the advance adjustments, FINAS will not approve the next advance applications and the previous application will be coordinated through the payroll deduction. For the cash issued by FINAS on behalf of the Ministry, all records and proof of payment as well as receipts have been updated. However, the Ministry did not take immediate action to restore the cash that has been advanced by FINAS. At present, FINAS is dealing with the Ministry of Tourism and Culture Malaysia so that all claims advanced by FINAS previously must be paid to FINAS promptly.

d. Cash Flow Statement is one of the statements to the FINAS' Financial Statement. Cash received from customers, cash payments to suppliers and employees as well as interest received amounted RM182.04 million as disclosed in the Financial Statement could not be verified.

FINAS' Review:

- YM Raja Rozaimie bin Raja Dalnish Shah, Director General of FINAS informed that the Cash Flow Statement has been prepared following

the Bank Reconciliation Statement for August to December 2012 was completed.

- Dato' Sri Rahim bin Mohamad Radzi, Secretary General of MCMC informed that the Cash Flow Statement for the year 2012 has been prepared together with the supporting documents. FINAS will submit to the National Audit Department for a proper review. For the Cash Flow Statement for 2013, FINAS has submitted to the National Audit Department together with the financial statement for the year ended 31 December 2013.

4.2.2 FINAS' Financial Management For 2009 and 2012

a. Management Control

- **Audit Committee was only met 3 times in 2011. The quarterly report was not prepared and presented to the Board. The Annual Report of the Internal Audit Unit was not provided and submitted to the Director General and Secretary General of the Ministry.**

FINAS' Review:

- Mr. Ahmad Faizal Bin Hassan, Auditor of FINAS informed that the Internal Audit Unit (UAD) has only one officer in 2006. However, starting from 2008 to date, UAD has 3 officers including him. He also informed that UAD have to expect help from the Finance Division to conduct an audit because of the staff shortages. In addition, the Audit Committee could not hold meetings according to the prescribed time because of the membership of the representative from the Board of Directors who is constantly

changed in a year. The audit report and the Annual Report of UAD have been submitted to the Director General of FINAS and presented to the Audit Committee of FINAS. However, the Annual Report of UAD was not submitted to the Ministry as did not receive the authorization from the Director General of FINAS.

- Mr. Mohd Naguib b. Razak, Former Director General of FINAS informed that the audit report by the Internal Audit Unit has been forwarded by him to the Secretary General of the Ministry and the Minister to be investigated thoroughly on the issues rose. This is to ensure that the process is carried out immediately without delay because of the Audit Committee only meets once every three months.
- Datuk Mohd. Mahyidin Bin Mohd. Mustakim, Former Director General of FINAS also informed that Management Meetings were held regularly and in 2007, a total of 18 meetings were held, followed in 2008 and 2009 by 13 times and 16 times in 2010. Audit Committee Meetings are held four times a year since its inception in 2010.
- Dato' Sri Abdul Rahim Bin Mohamad Radzi, Secretary General of MCMM informed that the Internal Audit Unit of FINAS will submit quarterly reports regularly to the Ministry starting 2014.

b. Budget Control

- **A total of 78 virement in 2011 and 8 in 2012 were not approved by the Director General.**

FINAS' Review:

- Datuk Mohd. Mahyidin Bin Mohd. Mustakim, Former Director General of FINAS informed that in terms of budget control and so on, there is a discussion to see the control in terms of virement and whether the budget is adequate or not, but in terms of procedure, there may be one or two non-compliance.

c. The Investment and Loan Management

- **FINAS did not establish an Investment Committee and did not provide policies and procedures related to fixed deposit investment and regular monitoring to monitor the investment.**

FINAS' Review:

- Dato' Sri Abdul Rahim Bin Mohamad Radzi, Secretary General of MCMC informed that FINAS has established an Investment Committee particularly related to the fixed deposit investment that was previously granted to an officer only. The committee was chaired by the Director General of FINAS and the members consist of Deputy Director of Management, Director of Finance, Director of Marketing, Director of Engineering and Accountant.
- The handover of power has been given to the officers of FINAS in terms of financial management. It includes Controlling Officer in FINAS, Deputies Director General and Director of Finance as well as the Head of Internal Audit in order to strengthen the financial management of FINAS. This is also to ensure that there is no duplication or ambiguity as occurred.

5. SUMMARY OF THE PUBLIC ACCOUNTS COMMITTEE

In overall, PAC believes that the financial statement validation and financial management of FINAS were unsatisfactory because of the failure to provide the Bank Reconciliation Statement, the failure to maintain the record and registration of assets as well as advances properly and the weaknesses in financial management. However, the PAC welcomed the improvement measures to be taken by FINAS in ensuring the preparation of financial statements and financial management is consistent with the regulatory requirements. The weaknesses are as follows:

- i. FINAS failed to provide the Bank Reconciliation Statement for 5 months from August to December 2012 resulted that the balance of money at the Bank amounted RM29.08 million as disclosed in the financial statement could not be verified.
- ii. Asset registration of FINAS was not properly maintained and updated which cause the net value of Property, Plant and Equipment amounted RM88.02 million could not be verified. The allocation of depreciable amount for the current year was also affected because of the disposal, loss and purchases of assets in 2011 and 2012 were not recorded in the asset registration.
- iii. FINAS also has yet to finalize the amount of the assets after the merger with the FNM which took effect in January 2013. This cause the assets of FNM were not accounted in the financial statement of FINAS.
- iv. Advances totaling RM5.06 million could not be verified as well because FINAS did not carry out a complete cash advance registration. Matters related to the cash advance registration have also been reprimanded and was raised by the National Audit Department during the Auditing of Financial Management in 2009 and 2012.

- v. Items in the Cash Flow Statement amounted RM182.04 million which is the cash received from customers, cash paid to suppliers and employees as well as the interest received could not be verified. This also affects the accuracy of the revenue figures, debtor and creditor in the annual financial statement of FINAS.
- vi. Financial management of FINAS was weak where the control exists such as management control, budget control, asset management and expenditure control were not well managed and organized in accordance with the existing financial regulation.
- vii. The lack of monitoring on financial management in FINAS which the Ministry and the committee established such as the Audit Committee did not play an effective role.

6. RECOMMENDATIONS OF THE PUBLIC ACCOUNTS COMMITTEE

PAC recommends FINAS to take the following improvement action:

- a. To strengthen the corporate governance in FINAS in order to ensure that the raised weaknesses will not recur;
- b. The Board of Directors and the Management of FINAS play an active role in ensuring the financial management is in order and comply with the financial regulation;
- c. The Audit Committee shall be independent and consists of Board of Directors and not the one from the management of FINAS;
- d. Internal Audit Unit Report of FINAS should be reported to the Audit Committee on a regular basis;

- e. The Ministry including the Controlling Officer shall monitor and ensure the financial management of FINAS is managed properly to secure the interests of the Government is maintained and protected; and
- f. To ensure that the staffs appointed from the private sector take the initiative and understands the administration and regulation of the Government.

The Public Accounts Committee