

# Index Disclosure of Public University Reporting: The Case of Malaysian University

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## Abstract:

This study aims to identify the quality of annual financial report prepared by various universities in Malaysia. Digital reporting on financial report is chosen because nowadays the internet has become a key source of corporate information. Thus, this study will be focusing on both public and private universities that operate in Malaysia and have published their annual financial report online. Annual financial reports from the 7 public universities and 15 private universities will be collected through their official website respectively to be used as the data to conduct this research. The data collected will then be analysed by using the 56 items of disclosure index that have been developed based on the framework of both Modified Accountability Disclosure (MAD) index and MGTC index to determine the disclosure levels of the financial reports. The findings indicated that the level of disclosure ranges from 28.57 percent (16 items) to 76.79 percent (43 items). At the end of the research, it is recommended that Malaysian universities should disclose their financial reports in accordance with the established index for better quality.

**Keywords:** Index, disclosure, university reporting, public university, Malaysia.

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## I. INTRODUCTION

Current global challenges that are faced by higher education institutions are innovative educational environment, technology and diverse cultural environment (Powell, 2013). Huge budget is required to meet these goals as huge costs will be incurred to bring in innovative teaching skills, educational model, technology as well as internal management of organizational resources. Hence, insufficient funding could be a big obstacle for higher education institutions in achieving these goals.

According to Wan (2007), the Malaysian higher education system consists of both public and private universities. Commonly, universities that are operated in Malaysia can be grouped into two main categories, which are public higher education institutions and private higher education institutions. Fundamentally, the financial resource that private universities rely on

to sustain their operations include corporate investment, and funding from sources other than government. However, public universities are government-funded institutions and are placed under the jurisdiction of Ministry of Higher Education.

Based on the Malaysia's Federal budget, it showed that the Ministry of Higher Education has experienced a severe cut in allocation of fund in the past few years (Lee, 2017). The budget cuts in higher education fund allocation brought the pain to all public universities in Malaysia, especially for research universities. This shows that public universities should plan the allocated fund in the most appropriate and effective way to fully utilised the fund. On the other hand, private universities that operate by using the corporate investment and other funding should also disclose their annual financial report so that the stakeholders have a broad understanding about their investment and how the management of universities have been

utilising their money. Thus, it is reasonable for these higher education institutions to disclose their annual financial report to the public. Therefore, it should be clear that this research is conducted with the aim to identify the quality of annual financial report in the aspect of disclosure item which will involve both Malaysian public and private universities.

In the current era, putting information like annual reports online brings more pros than cons as it allows the ease access of information to the public to know about the condition of a certain university. However, there were also researches done to investigate the disclosure of annual reports by universities (Banks, Wisher and Nelson (1997 & 2003); Coy and Dixon (2004); and Ismail and Abu Bakar, 2011). However, there were only a few researches conducted on the disclosure of annual report by the universities in Malaysia. The previous researches were done by Ismail and Abu Bakar (2011) and Ali Khan and Rozaini (2015). As there were lack of studies done on the annual reporting practices by Malaysian universities, this study is needed to identify the quality of annual financial report prepared by various universities in Malaysia by using the selected indices.

The research objectives are as below: (1) To evaluate the quality of annual reports prepared by both public and private universities in Malaysia by accessing the index of disclosure items contained in the annual report to measure the extent of disclosure. (2) To measure the quality of university's annual report by using the disclosure index.

## II. LITERATURE REVIEW

Since the early 1990s, there have been quite a number of researches conducted in the developed countries with the aim of examining the disclosure level of the universities' annual report. Gray and Haslam (1990) have conducted a research in the United Kingdom to study about the transformation of reporting practices used by the British universities over a period of five years. It is proved that external forces can contribute to the reporting practices. It concluded that there were huge changes in the disclosure level of financial information but minimal changes in non-financial information.

There was also research done on the New Zealand

universities' annual report by Coy, Tower and Dixon (1991) with the aim of studying the disclosure level of the annual reports. The annual financial reports of the universities and polytechnics over a period of six years were examined and the conclusion was that there were huge improvements in the disclosure level. Dixon et al. (1991) had extended the research by including the measurement of the quality of disclosure on the selected 33 New Zealand universities' financial report. The Modified Accountability Disclosure (MAD) index was then developed from this research. The MAD index is a weighted disclosure index.

Nelson, Fisher and Banks (1997, 2003) had conducted a research by comparing the universities annual reports from England, New Zealand, Wales and Northern Ireland, and Canada internationally. The result showed that New Zealand universities presented their financial report in the highest level of disclosure as compared to the other universities from the other countries. This research is done by adopting the MAD index developed by Coy et al. (1993). Bank et al. (1997) also studied about the financial statement prepared by the established and new universities. The result showed that the established universities had a higher level of disclosure as compared to the new universities.

Another research conducted by Ali Khan and Rozaini (2015) was about the Malaysian university reporting. This study aimed to investigate the disclosure items in the financial reporting of both Malaysian public and private universities by using the MAD index. The study concluded with the 40 items of disclosure identified that can be used as the basic measurement for the purpose of evaluating the quality of universities' annual reports. Besides, it also concluded that the quality of public and private universities' annual report is high and is in compliance with the framework list.

A study done by Ismail and Abu Bakar (2011) was about the evaluation of the extent of accountability disclosure by the Malaysian public universities. Moreover, this research also investigates the degree of disclosure by comparing both the annual report and the annual report published on the websites by the established and new universities in Malaysia. The study was conducted by adopting the combination of both MAD index and MGTC 4/2007 index as a tool of

measurement. It was concluded that the extent of disclosure of the public universities' annual report is satisfied but there is still room for improvements for the universities to fully disclose their annual report by following the disclosure items suggested.

### III. METHODOLOGY

For the purpose of the research, sample size is used to identify the selected population (Devies, 2014). In other words, it also means that sample size is an important factor that will affect the accuracy of the data involved in conducting this research. Thus, it is important to have an appropriate sample size in order to have achieve the best level of accuracy. In this research, a sample size of 22 universities that comprise of 7 public universities and 15 private universities is chosen from a population of 20 public universities and 47 private universities in Malaysia (StudyMalaysia.com, 2018). The annual report published by these 22 selected universities will be used in this study to achieve the research objective, which is to measure the level of disclosure index in their financial reports.

The disclosure index used in this research is developed with 56 items based on the framework of Modified Accountability Disclosure (MAD) index which had been proposed by Coy et al. (1993), with the reference of previous studies done by Banks, Nelson and Wisher (1997); Coy, Dixon and Tower (1994); Coy, Dixon, Tower and Buchanan (1997); Coy and Dixon (2003); Ismail and Abu Bakar (2011); Banks, Nelson and Fisher (2003), and Ali Khan and Rozaini (2015). A comprehensive review of accountability literature for universities and review of universities annual report was conducted to determine the MAD index (Ismail and Abu Bakar, 2011). There were only 26 items comprised in the previous researches that were categorised into five categories, namely overview, service performance, financial performance, physical and financial condition and community service.

Furthermore, MGTC 4/2007 Disclosure Index that were proposed by Ismail and Abu Bakar (2011) is also used in conducting this study due to the reason that this study is conducted based on the annual financial report of Malaysian public and private universities. However, as the disclosure items of MGTC index are

based on the public sector services that are wholly owned by the government, such as public universities. Thus, as this research will be conducted by using the data from annual financial report of both public and private universities in Malaysia, the combination of both MAD index and MGTC index will be used for the purpose of measuring the disclosure index of financial report. A list of 56 disclosure items will be used to evaluate the disclosure index of the universities' financial report by dividing into five categories.

The data collected will then be analysed quantitatively. All the data will be collected from the annual financial report of year 2016 for both public and private universities. Consequently, the data will be analysed by using Statistical Package for the Social Science (SPSS) 18.0 software. The data will be analysed and presented in the form of frequency counts and descriptive statistics.

### IV. FINDINGS AND DISCUSSION

The findings of this research will be presented in the following ways. First, the result of the overall level of frequency for Malaysian universities will be shown, followed by the level of frequency of the five categories namely overview, service performance / research, financial performance, physical and financial condition and community services.

Table 1 shows the overall level of frequency for the reporting of both public and private universities. The findings indicated that the level of disclosure ranges from 28.57 percent (16 items) to 76.79 percent (43 items). There are only one university (4.55% of the selected universities) obtained the highest disclosure index at 76.79 percent by including 43 items out of the total of 56 items in its annual financial report. However, there are one university that obtained the lowest disclosure index at 28.57 percent. The result also showed that there were five universities obtained a disclosure index at 58.93 percent with the number of items of 33.

Table 1 Overall Level of Frequency of Public and Private Universities' Reporting

Disclosure Index	Number of Item	Frequency	Percentage %
28.57	16	1	4.55

30.36	17	1	4.55
42.86	24	1	4.55
44.64	25	2	9.09
51.79	29	2	9.09
53.57	30	2	9.09
55.36	31	2	9.09
58.93	33	5	22.73
66.07	37	1	4.55
67.86	38	1	4.55
69.64	39	1	4.55
71.43	40	1	4.55
75	42	1	4.55
76.79	43	1	4.55
<b>TOTAL</b>	<b>22</b>	<b>100</b>	

Table 2 shows the level of frequency of both public and private universities' reporting under the overview category. The range of the level of disclosure index is from 29.41 percent (5 items) to 88.24 percent (15 items). There are three universities obtained the highest disclosure index of 88.24 percent with 15 items out of a total of 17 items. There is only one university that obtained the lowest disclosure index of 29.41 percent with 5 disclosure items. Besides, there are five out of twenty-two universities that have the disclosure index of 82.35 percent with 14 items. The findings showed that the highest disclosure index under the overview category is 88.24 percent with 15 disclosure items.

Table 2 Level of Frequency of Public and Private Universities' Reporting (Overview Category)

Disclosure Index	Number of Item	Frequency	Percentage %
29.41	5	1	4.55
47.06	8	2	9.09
58.82	10	2	9.09
64.71	11	3	13.64
70.59	12	2	9.09
76.47	13	4	18.18
82.35	14	5	22.73
88.24	15	3	13.64
<b>TOTAL</b>	<b>22</b>	<b>100</b>	

Table 3 shows the level of frequency for the reporting of both public and private universities under the service performance / research category. The findings showed that the disclosure index under the service performance / research category ranges from 0 percent (0 item) to 84.62 percent (11 items). There are three universities that obtained the highest

disclosure index of 84.62 percent with 11 disclosure items and also three universities that obtained the lowest disclosure index of 0 with 0 disclosure item. Besides, there are four universities obtained the disclosure index of 30.77 percent with 4 disclosure items. The findings showed the highest disclosure index under the category of service performance / research is 84.62 percent with 11 number of items.

Table 3 Level of Frequency of Public and Private Universities' Reporting (Service: Performance / Research Category)

Disclosure Index	Number of Item	Frequency	Percentage %
0	0	3	13.64
7.69	1	1	4.55
15.38	2	2	9.09
23.08	3	1	4.55
30.77	4	4	18.18
38.46	5	2	9.09
46.15	6	2	9.09
53.85	7	1	4.55
61.54	8	1	4.55
69.23	9	2	9.09
84.62	11	3	13.64
<b>TOTAL</b>	<b>22</b>	<b>100</b>	

Table 4 presents the frequency level of both public and private universities reporting under the financial performance category. The disclosure index for universities' reporting ranges from 0 percent (0 item) to 66.67 percent (10 items). There are four universities that obtained the highest disclosure index under this category is 66.67 percent with 10 items. In contrast, there is only one university that obtained the lowest disclosure index of 0 percent with 0 item. Besides, there are eight out of twenty-two universities that have the disclosure index of 53.33 percent with 8 items. The findings showed that the highest disclosure index under this category is 66.67 percent with 10 items.

Table 4 Level of Frequency of Public and Private Universities' Reporting (Financial Performance Category)

Disclosure Index	Number of Item	Frequency	Percentage %
0	0	1	4.55
13.33	2	1	4.55
46.67	7	1	4.55
53.33	8	8	36.36
60	9	7	31.82
66.67	10	4	18.18



<b>TOTAL</b>	<b>22</b>	<b>100</b>
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Table 5 shows the level of frequency of both public and private universities' reporting under the physical and financial position. The range of disclosure items under this category is from 14.29 percent with 1 item to 85.71 percent with 6 items. There are five universities have the highest disclosure index of 85.71 percent with 6 disclosure items while one university has the lowest disclosure index of 14.29 percent with only 1 item. Moreover, there are nine universities that obtained the disclosure index of 57.14 percent with 4 items.

Table 5 Level of Frequency of Public and Private Universities' Reporting (Physical & Financial Condition Category)

Disclosure Index	Number of Item	Frequency	Percentage %
14.29	1	1	4.55
28.57	2	1	4.55
42.86	3	1	4.55
57.14	4	9	40.91
71.43	5	5	22.73
85.71	6	5	22.73
<b>TOTAL</b>	<b>22</b>	<b>100</b>	

Table 6 presents the level of frequency of both public and private universities' reporting under the community service category. The findings showed that the range of disclosure index under this category is from 0 percent (0 item) to 100 percent (4 items). There are only one university obtained the disclosure index of 100 percent with 4 items. In contrast, there are six universities obtained the disclosure index of 0 percent with 0 item. Moreover, there are a total eight out of twenty-two universities that obtained the disclosure index of 75 percent with 3 items. The findings showed that the highest disclosure index is 100 percent with 4 disclosure items.

Table 6 Level of Frequency of Public and Private Universities' Reporting (Service: Community Category)

Disclosure Index	Number of Item	Frequency	Percentage %
0	0	6	27.27
25	1	1	4.55
50	2	6	27.27
75	3	8	36.36
100	4	1	4.55
<b>TOTAL</b>	<b>22</b>	<b>100</b>	

## CONCLUSION

This research has studied about the level of disclosure of the annual financial report of Malaysian public and private universities where it is assessed by using the disclosure index. Based on the outcomes, it can be concluded that the quality of reporting of the public universities is better compared to the reporting of private universities. In an overall picture, the level of disclosure of both public and private universities has maintained in a high standard. However, better disclosure of annual financial report should be presented in accordance to the item proposed in the MAD index and MGTC 14/2007 to achieve better quality of report.

There are several limitations in conducting this research. Firstly, the number of samples is very limited as only a few universities have been selected to be involved in this study whereby only twenty-two out of forty-seven universities. Secondly, there are limited previous study available to be referred to as there were only a few studies conducted on the topic of universities' disclosure index.

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