

FINANCIAL TRANSPARENCY IN MALAYSIAN PUBLIC UNIVERSITIES: ARE WE ON THE PATH TO ACHIEVING SDG 16?

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ABSTRACT

Financial transparency is useful for decision making and effective resource allocations. The information must be reliable and disseminated in a timely manner to stakeholders. Transparency is one of the targets in Sustainable Development Goal (SDG) 16, which aims for peace, justice, and strong institutions. A large amount of public spending has been allocated to public universities; often, however, the decision made in allocating funds is not based on financial statements. This approach may contribute to inefficiency in public spending. This study adopts resource dependency theory to explain this phenomenon. The objective of this study is to examine financial transparency by focusing on current and liability ratios among public universities in Malaysia. The specific characteristics of the universities are examined using regression analysis. Data are obtained from the financial statements of 20 Malaysian public universities (MPUs) from 2015 to 2018. The principal finding of this study is that current ratios in Malaysia's public universities are high, giving the impression that a large amount of liquid public resources is in public universities. However, further investigation reveals that most public universities in Malaysia classify the whole amount of deferred grants as a non-current liability. The findings also show that debt ratios are high, which implies the slow amortization of government grants in MPUs. These practices jeopardize the quality of financial statements and affect the financial transparency of MPUs, hinting at the state of the path toward SDG 16. This result is in line with the argument by resource dependency theory that organizations are connected to the environment via their dependency on other organizations for many resources. This research has practical implications by offering recommendations to enhance the financial transparency and decision-making process for public universities toward achieving SDG 16 and by contributing to the current literature on public sector accounting.

Keywords: Financial transparency, Current ratio, Liability ratio, Malaysian public universities, resource dependency theory, SDG 16.

INTRODUCTION

In delivering accountability to the public, the government needs to be transparent in their spending to address stakeholders' needs. This issue is more vital for the public sector, where the fund is public money contributed by taxpayers. While the quality of financial statements is widely discussed for corporations, financial transparency is largely ignored for public sector institutions. Transparency is one of the governance mechanisms for forming strategies toward sustainable development goals. The 17 Sustainable Development Goals (SDGs) are the United Nation 2030 agenda of all governments, in order to create peaceful and inclusive global societies. The aim for implementing the 17 SDGs is to have balanced economic growth, social equitability,

an end to poverty, and environment protection for both developed and developing countries. Therefore, a developing country like Malaysia must not be left behind in attaining global SDGs. In fact, Malaysia has pledged to be committed fully in working toward achieving the SDGs (Tan, 2019). Education has been placed in a critical role in the SDG framework as a catalyst for change by driving socioeconomic activities and societal well-being. Higher education is undeniably essential for sustainable development, either as a development agent for some locations or through its role in developing human capital for the country. Adams (2017) argues that reporting frameworks play a critical role in enhancing the contribution of organizations to the SDGs. With enhanced financial transparency, it is hoped that better decision making will improve public action and create a better environment for the population (Sour, 2012). Thus, public spending on higher education must be carefully planned and monitored as it may attract the interest of many stakeholders.

With the digital revolution at present, there is greater demand for government financial accountability and transparency. Official agencies such as the International Monetary Fund (IMF) and the International Budget Partnership have promoted fiscal transparency as an internationally accepted doctrine and corrective measure for the increasing amount of government debt (IMF, 2014). Moreover, it helps the government by providing an accurate picture of finances when making decisions, such as the costs and benefits of policy changes and potential risks to public finances (IMF, 2014). The institutionalization of transparency practice is also essential to enable quantitative analysis for effective public financial management (Honore et al., 2007; Kazemian et al., 2021). Despite the importance of public sector accounting, prior studies focused more on the reporting quality of corporations, whereas financial transparency for public sector institutions is under-researched. Therefore, the present study examines financial transparency by focusing on current and liability ratios among public universities in Malaysia. This study explains the situation by using a resource dependency approach. Additionally, it tests the relationship between the total rate of amortization of research grant and development grant and the ratio of expenses over total income as well as the specific characteristics of universities.

Increasingly tight state resources, rising expenditures, and increasing costs at public universities are vital matters that are highlighted in the current economic environment. In an effort to address the challenges associated with strained public resources, this research raises the importance of financial transparency among Malaysian public universities (MPUs). According to Honarare et al. (2007), financial transparency must be based on valid concepts, readily accessible standardized information, and timely dissemination to stakeholders. Some of the transparent approaches include standardized data collection and comparable financial statements that enable a quantitative analysis of financial performance and credible financial management practices. In this case, public sector accounting no longer focuses only on budgeting and documenting the disbursement of funds but shifts into being accountable and transparent in providing useful information for decision making. The integrity of government reporting is critical as it is the initial step toward providing data for better decision making and generating information for evaluating public expenditure (Sour, 2012). Improvements in financial reporting allow the government to return its accountability to voters and taxpayers (Lasse, 2014). Since public institutions intend to seek funding from the government, they need to ensure financial transparency and objective, rational decision making. As the objective of financial statements is to provide information for the decision making of users, ensuring that financial statements are

faithfully represented and relevant is imperative (International Accounting Standard Board [IASB], 2018). Often, however, the transparency is halted with insufficient verifiable, unreliable, and less timely data (Honorare et al., 2007). This situation can be explained using resource dependency theory; that is, because public universities are dependent on the government for public funding, their reporting of financial statements is affected. Government funding for higher education is mostly spent on education activities such as learning, teaching, research, organizational governance, culture, and operation. Owing to the important role of universities, it is critical for these organizations to be strong institutions by enhancing their transparency and governance. Thus, SDG 16 (i.e., peace, justice, and strong institutions) must be emphasized by public universities. Toward realize sustainable development, this study intends to offer recommendations targeting public higher education transparency because considerable public funds are spent on public higher education.

This study contributes to the literature in several ways. First, it contributes to higher education literature by explaining the behavior of public universities in preparing financial statements by using a resource dependency approach. Prior studies on higher education that adopt resource dependency theory mostly focused on explaining organizational strategies (Fowles, 2014; Powell and Rey, 2015; Kholmuminov, 2019; Kazemian, et al., 2020; Rosli, et al., 2015). Additionally, this research contributes to the literature on public sector accounting as there is a lack of prior studies examining the financial statements of public universities, particularly in Malaysia. Earlier, Ismail and Abu Bakar (2011) demonstrated that MPUs present their accountability disclosure in their annual report; however, the website's information is shallow. In another prior study, Basnan et al. (2016) surveyed the information needs for reporting from the perspective of stakeholders of MPUs. They found that stakeholders are concerned not only with non-financial performance data such as outside financial statements but also with financial data such as output measures and operating results. These two studies did not examine the information quality of financial statements of public universities of Malaysia. Accordingly, the present study fills this gap by examining the transparency of the information reported by MPUs via current and liability ratios. Third, this study examines the issue of transparency by looking at the state of the path of MPUs toward SDG 16. It thus offers important implications for policymakers and the government in forming strategies toward attaining SDGs, particularly SDG 16.

Ratio analysis is a useful tool in analyzing the health of one organization. Honorare et al. (2007) suggested that the public sector perform ratio analysis, a specific analytical method to identify the strengths and weaknesses of an organization. Financial ratio analysis provides an indicator of the financial well-being of an organization by measuring the relationship of two or more values, which are expressed as a single number. The essential tools in performing financial statements analysis are profitability, efficiency, liquidity, gearing, and investment ratio analysis (Collier, 2012). A review of prior literature reveals that profitability, liquidity, and debt ratios are the most studied in earlier studies. However, profitability ratios are not a significant concern in public sector organizations because they receive public funding and are not meant to make profits. The efficiency of public sector organizations is more represented by the use of liquidity and debt ratios. Therefore, this present study examined MPUs by using current and debt ratios. The current reporting landscape of MPUs is basically ignored by previous researchers. Often, the reason for this situation is because they will receive fund in any way from the government and so

there is less attention for quality financial statements. However, post the Covid-19 pandemic, the government—with its limited resources—has to be more cautious in spending for sustainable development. This study aims to look at the transparency of MPUs in reporting and suggest ways for the government and universities to achieve SDG 16. The following sections discuss the literature review, research methodology and analysis, and conclusions.

LITERATURE REVIEW

Reporting landscape of Malaysian Public Universities

In recent years, accounting scandals have prompted calls for faithful representation and honest accounting disclosure. Through the annual report in public sector organizations, quality reporting practices are vital in delivering accountability to society (Connolly and Hyndman, 2004). Thus, transparency in reporting is a way that public officials discharge their duties by reporting their actions to the public so that the public can play a useful role as a stakeholder in public organizations (Rauf et al., 2003). Through quality reporting, any mismanagement or inefficiency in resource allocation can be detected and examined. This issue is vital in the public sector, particularly the education sector, where a large amount of public spending is allocated. In recent years, public resources are getting scarce. With the limited resources and the demand for a quality teaching and learning environment, policymakers and university management are facing tough challenges. The education sector is also facing a tough time nowadays with the increasing cost of education and reduced well-paying job opportunities (Iordache-Platis, 2019). The situation became more critical with the Covid-19 pandemic. Given the limited public funding and rising cost of education, Bisogno et al. (2014) highlighted the critical need for the public sector to provide transparent information regarding its performance so that analysis can be performed for the effective decision making of resource providers and the monitoring of other stakeholders. Transparency in reporting public fund allocation is crucial in building a strong institution, which is an SDG 16 goal.

In enhancing transparency, public accountability, and integrity of reporting in the public sector, the Malaysian government agreed to implement quality accounting standards, namely, the Malaysian Public Sector Accounting Standards (MPSAS), in public sector entities in Malaysia in 2018. This adoption was implemented in stages. Before MPSAS was implemented, the MPUs adopted Malaysian Private Entities Reporting Standards (MPERS) in preparing their financial statements. MPERS is the equivalent version of International Financial Reporting Standards (IFRS) for small and medium enterprises. In the future, reporting for MPUs is through the adoption of MPSAS. This move is in line with the PwC (2015) contention that all governments should produce high-quality and transparent financial statements that are credible and internationally recognized using International Public Sector Accounting Standards (IPSAS) or equivalent standards. MPSAS is the move of convergence of national accounting standards with IPSAS, issued by the International Federation of Accountants (IFAC). IPSAS, for the most part, is based on IFRS. To date, 32 MPSAS have been issued. The move toward MPSAS in the public sector is envisaged to significantly affect good fiscal management and improve the financial management and accounting of federal and state governments (ACCA, 2018) in their effort to attain target 16 of the SDGs.

The highest component of the current ratios and debt ratios of MPUs is deferred grant, which are mostly grants from the government. As the financial statements prepared using MPSAS are not yet available to be examined, this study reviews the requirement of MPERS in treating the government grant. It is believed that the accounting treatment does not differ much from MPSAS and Malaysian Financial Reporting Standards (MFRS). Section 24 Government Grant of MPERS defines a government grant as assistance by the government in the form of a transfer of resources to an entity in return for past or future compliance with certain conditions relating to the entity's operating activities (MASB, 2016). Paragraph 24.4 of MPERS specifies that grants received before the revenue recognition criteria are satisfied are recognized as a liability (MASB, 2016). Furthermore, MPERS Section 4.0, paragraph 4.7 requires an entity to classify a liability as current when it expects to settle the liability within the entity's normal operating cycle, it holds the liability primarily for trading, the liability is due to be settled within 12 months after the reporting date, or the entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date (MASB, 2016). With this requirement, the amount of grant expected to be amortized within the next 12 months should be classified as current liabilities. Therefore, it is expected that there will be a deferred grant under the classification of current and non-current liabilities. Such accounting treatment is in line with the accounting standards followed by Australian higher education, namely, Australian Accounting Standards Board (AASB) 1058 Income of Not-for-Profit Entities, which arguably helps better match revenue and expenditure (AASB, 2016). The treatment allows income from grants and donations to be deferred until the related services are delivered.

Resource Dependency Theory

Many earlier studies in non-profit organizations, such as Lenaghan (2006), Mosley (2010), Seo (2011) & Sleet (2010), have explored resource dependency theory in the healthcare sector. Resource dependency theory describes that organizations are connected to the environment via their dependency on other organizations for the resources they need (Pfeffer and Salancik, 2003). For example, universities are linked to their environments for critical resources such as students or funding (Powell & Rey, 2015). Prior studies on higher education have applied resource dependency theory but focused mainly on organizational strategies. Some studies utilized the theory to explain public higher education in the United States during turbulent environments with increased accountability, assessment measures, and declining state budgets. For example, Fowles (2014) employed resource dependence theory to examine the relationship between institutional reliance on net tuition dollars as a source of revenue and institutional expenditures for education and related activities at public, four-year institutions of higher education in the United States. Drawing on an 11-year panel of university-level data, Fowles (2014) found that institutional expenditures are quite responsive to changes in revenue patterns within the context of the longstanding trend of decreased state support for public higher education.

In an earlier study of Tolbert (1985), it is found that administrative differentiation in higher education is partially determined by resource dependence because of the need to safeguard a stable flow of resources from external support sources. This result is consistent with a core premise of resource dependency theory delivered in Kholmuminov (2019), where a

significant positive relationship exists between the share of the revenue from tuition fees and the share expenditure spent on teaching. This finding shows that spending which can be translated into organizational activities depends on the resources received. From the above studies, it can be explained that the administration of higher education and organizational strategies are very much shaped by the degree of reliance on resource providers. The above prior literature on higher education that applied resource dependency theory did not examine the organizational strategy on financial statements. The present research extends prior literature on higher education by using the theory to explain the effect of organizational behavior on financial statements. The researchers contend that there is less difficulty for MPUs to obtain resources from the government and, therefore, there is less necessity to produce quality financial statements. This behavior can be explained using resource dependency theory.

Resource dependency theory explains how reliance on resource providers results in the government or politicians exerting influence on the decision making of organizations (Pfeffer & Salancik, 1978), including their financial reporting outcomes. In essence, the theory supports the view that resource providers can be a means to acquire, generate, or maintain resources, resulting in a competitive advantage for the firm (Hillman et al., 2000). With government influence, organizations can easily access assistance or resources as it is likely to be based on government directions and political connections (Aggarwal, 1999). Therefore, this occurrence reduces the need for the organizations to produce high-quality reporting to compete for resources and finance. A literature review reveals the use of resource dependency theory to explain the outcome of financial reporting in profit-making organizations. For example, Mohammed et al. (2017) reported that political influence in Malaysia's listed firms is associated with a lower quality of reporting proxied by accounting conservatism. Earlier studies have shown that firms with a higher degree of government share ownership are associated with a lower level of financial transparency and a push for the early recognition of good news (Bushman et al., 2004; Bushman and Piotroski, 2006; Chen et al., 2010).

Drawing upon prior literature that applies resource dependency theory in higher education and the explanation related to the outcome of financial reporting in profit-making organizations, this research applies a similar explanation for MPUs that are highly reliant on government funding. The theory explains how government ownership allows the government to exert control over management appointments, incentives, and major economic decisions (Pfeffer and Salancik, 1978), including financial statements (Ball et al., 2003). As there is less difficulty in obtaining resources with government influence, Ball et al. (2003) therefore argued that there is insignificant pressure from public investors for companies to report losses in a timely fashion. Hence, the present study posits that there is a tendency for the financial statements of MPUs to be of low quality because they are very much dependent on the government for funding. It is well known that the government will make sure that MPUs survive with their funding. Ease of access to resources reduces the demand for quality financial statements. Furthermore, resource dependency theory explains that the resource providers can influence the management decision, including financial statements. With the possibility that financial statements are not used in the government's decision making, this occurrence influences the behavior of institutions in reporting financial statements. This study likewise suggests that MPUs are still lagging behind in

being transparent in reporting transactions and recommends that strategies be formulated for attaining SDGs.

Sustainable Development Goal 16

Most prior literature discussed the issue of sustainability with regard to higher education in relation to SDG 4. The focus of Goal 4 is to “Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.” For higher education to attain Goal 4, it is undeniable that they need funding. Owen (2017) states that the aim of higher education is to invest in knowledge and responsible research, which can be attained by growing research funds, with the target to assist in solving global issues, as well as to develop the capacity and skills of professional researchers. Meanwhile, Ferguson and Rooft (2020) attribute the responsibility of academics in higher education to include the task of attracting funding through research activities, consultancies, and student enrolment. They also contend that SDGs are interrelated and interdependent; hence, one goal cannot be achieved without the other. To attain SDG 4, particularly in the issue of funding, the higher education industry needs to work on becoming a strong institution by delivering financial transparency. Through financial transparency, better governance and decisions can be made. This approach can help attain SDG 16, particular, peace, justice, and strong institutions.

Goal 16 requires the government to provide societies with justice and access to open, effective governance and inclusive and accountable institutions at all levels (Meuleman & Niestroy, 2015). Higher education institutions involve a great number of members of societies. Therefore, these institutions must be transparent, accountable, and effective public institutions in order to build confidence and trust between the government and societies. In this case, financial transparency in higher education is a crucial element in becoming a strong institution to promote peaceful and just societies toward contributing to the achievement of SDG 16. Bebbington (2017) suggests that research in relation to SDG should emerge from real problems in the market rather than the interests of accounting scholars. In that case, research on the transparency of MPUs is vital, given that the lack of transparency may result in the loss of public confidence. For example, Behn, DeVries & Lin (2017) highlight scandals due to non-accessibility of financial information of non-profit organizations, such as in the Red Cross. Empowerment should be given to the public to design and implement the accountability of public policies at all levels (TAP Network, n.d.). Thus, this study addresses the call by examining the state of financial transparency of higher education in Malaysia. The findings will give insights for forming strategies to implement Goal 16. This is the contribution to engage the public in strengthening transparency and delivering accountability to achieve sustainable and equitable development.

Financial statements are well known to be a tool for decision making (IASB, 2018). Jongbloed et al. (2018) further note that transparency is a key component of governance framework for higher education, as it delivers accountability and leads to better decision making. Apart from targeting transparent information, inclusive and participatory decision making is also emphasized in the targets of SDG 16. For example, Brazil is experiencing the benefits of participatory decision making, such as better allocation of resources to poor people, reduced bureaucracy in allocating resources, bringing public administration to the society's preference, and providing clear technical criteria for resource allocation. Transparency is vital in higher

education because higher education is a fragile and conflict-affected context (Chankseliani and McCowan, 2020). Political interference is a critical challenge for higher education toward achieving SDG 16. To minimize this risk, Jongbloed et al. (2018) argue that a new perspective on the governance of higher education systems must now emerge, where reliable information is vital to the stakeholders for their legitimacy, funding, and competitiveness.

Jongbloed et al. (2018) call for greater transparency in the higher education sector in line with achieving SDG 16 by empowering clients and key stakeholders, strengthening the provision of higher education, and better communicating the various dimensions of quality, performance, and public value to external stakeholders. The urge for transparency in reporting may lead to the achievement of Goal 16 and its sub-goals: “16.4 by 2030 significantly reduce illicit financial and arms flows, strengthen recovery and return of stolen assets, and combat all forms of organized crime; 16.5 substantially reduce corruption and bribery in all its forms; 16.6 develop effective, accountable and transparent institutions at all levels; 16.7 ensure responsive, inclusive, participatory and representative decision-making at all levels; 16.8 broaden and strengthen the participation of developing countries in the institutions of global governance” (TAP Network, n.d.). With regard to transparency, the efforts must include access to information frameworks; mandatory disclosure; proactive, voluntary disclosure of information by governments, including open government data; and fiscal transparency. It can assist organizations in reducing risk, identifying opportunities, and delivering long-term, innovative solutions and technologies to address sustainable development (Adams, 2017). An organization must develop strategies to contribute to SDGs, in this case SDG 16.

While there have been extensive studies with regard to governance, transparency, and accountability of higher education conducted in the United States and the United Kingdom (Ntim et al., 2017), there has been little attention with what matters for MPUs. The issue of transparency in higher education is more critical in developing countries like Malaysia. This research examines the transparency of the MPUs' financial statements by focusing on two critical ratios for public universities: current and liability ratios. Although the methodology is simple, this research is vital as it uncovers critical issues regarding MPUs. With the abovementioned guidelines from accounting standards and resource dependency theory, the following section examines the practices in MPUs.

RESEARCH METHODOLOGY AND ANALYSIS

The annual reports of MPUs are public documents and are available on the website of the official portal of the Malaysian parliament. This research carries out content analysis of financial statements. The period of 2015–2018 is chosen as it is the period that MPERS was applied and before MPSAS was implemented. All the MPUs, except for the International Islamic University of Malaysia (IIUM), are obliged to submit their annual reports to the Malaysian Ministry of Higher Education (MOHE). IIUM is an exceptional case because it is a company and thus applies MFRS in preparing financial statements. Most of the annual reports are obtained from the official portal of the Malaysian parliament. The annual reports that are unavailable from the official portal are requested from the MOHE or the individual university. Therefore, all 80 financial statements from 20 MPUs from 2015 to 2018 are examined. The data are extracted, and

the ratios are calculated manually by the researchers. The denotations of U1 to U20 are used in Tables 1, 2, and 3 to represent each public university in Malaysia.

For the purpose of analysis, the income of MPUs in the statement of comprehensive income is classified under five categories: 1. Government funding; 2. Provision, Adjustment, Amortization of Development Grant; 3. Provision, Adjustment, Amortization Research Grant; 4. Students' Fee; and 5. Other Income. Development grant is an allocation from the government that finances development projects, equipment, and upgraded work where the costs involved are very high and usually implemented in a period of more than one year. Research grant is the grant for the academics to conduct research projects. Table 1 show that the average percentage of government funding is between 50.2% and 73.4% and consists of the highest income component. The average percentage of income from students' fee is between 6.5% and 22.1%. Eight of the 20 universities show students' fee of less than 10%. This situation differs very much from private institutions, where students' fee is the main income. Another essential factor to the situation is that each public university does not have the authority to set the students' fee rate. This fee is within the jurisdiction of the MOHE. It is also very much a political issue, and it is not easy for the MOHE to simply raise the students' fee. This analysis shows that MPUs are very much dependent on government funding to survive. Another alternative to raise the funds of public universities is to increase other income from endowment, business income, and others. According to resource dependency theory, this situation may influence the transparency of financial statements. The transparency of MPUs is examined through current and liability ratios.

Table 1
PERCENTAGE (%) OF EACH INCOME CATEGORY OVER TOTAL OPERATING EXPENSES

Universities	Government Funding (%)	Provision, Adjustment, Amortization (Development) (%)	Provision, Adjustment, Amortization (Research) (%)	Students' Fee (%)	Other Income (%)
U1	51.0	5.0	6.5	18.5	13.1
U2	61.8	6.3	4.0	9.7	15.7
U3	51.8	4.8	11.0	16.3	11.5
U4	58.9	5.9	5.7	11.0	9.4
U5	50.2	11.3	5.1	22.1	9.4
U6	60.0	23.2	1.1	7.5	13.8
U7	63.8	15.7	0.7	9.7	9.0
U8	57.0	16.6	1.7	10.7	6.9
U9	58.1	21.3	1.9	11.7	6.0
U10	63.2	10.2	3.9	14.2	10.0
U11	73.4	8.0	0.8	12.4	8.6
U12	62.1	11.4	11.1	8.0	6.0
U13	65.9	20.6	3.4	9.8	6.6
U14	63.8	16.3	3.3	8.4	6.9
U15	68.4	10.8	3.1	12.0	6.0
U16	58.5	11.5	3.3	20.2	9.0
U17	72.5	10.4	3.4	6.5	5.1
U18	67.5	31.6	3.2	18.3	10.6
U19	71.4	8.9	3.6	9.9	8.1
U20	55.7	5.2	1.0	12.0	22.3

The current ratio measures the ability of an organization to pay its short-term liabilities. This ratio is calculated by dividing current assets over current liabilities. Current assets include cash, inventory, receivables, and other liquid assets while current liabilities include employee benefits, payables, and obligations of less than one year; thus, these ratios evolve over the working capital cycle (Collier, 2012). Table 2 shows the average of the current ratios and the average current modified ratios of 20 MPUs for 2015–2018. Initially, the current ratios were calculated by dividing total current assets with total current liabilities from the figure reported in the financial statements. As displayed in Table 2, most of the universities reported high average current ratios, implying a high amount of liquid assets is in public universities, ranging from 1.44 in U17 to the highest current ratio of 56.73 in U13. The mean of average current ratios is 15.96, which is considered a high current ratio compared to the ideal current ratio of 2. Furthermore, over the 2006–2016 period, a representative of the Russell Group universities in the United Kingdom had a current ratio fluctuating marginally between 1.46 and 1.72, giving a benchmark of 1.68 in 2016 (Mulholland, 2017). The current level of liquidity of UK universities remains healthy (OfS, 2019). The result shows that the average current ratio for MPUs is far higher than the United Kingdom's benchmark current ratio.

It is puzzling to see high current ratios in MPUs when they claim to have limited resources. Too high current ratios also imply an inefficient management of cash in an organization. Further examination reveals the reason for the high current ratios in MPUs, is because of the most of the public universities (16) reported deferred grants as a non-current liability. This practice causes the amount of current liability to be low. If we take this outcome literally, then the implication is that a nil amount of grant is realized within the next year. This approach seems to be inaccurate because there will be a certain amount of grant to be realized in the next year due to the running of research activities and capital expenditure. This occurrence is evidenced by the figures of grant amortization in the statement of comprehensive income every year. U1 has a negative deferred grant, which is deducted from the equity; U17 reports the deferred grant as a current liability; while U9 reports it as equity. Only one university, U8, reports a deferred grant in both classifications, current and non-current liability.

The figures of grant amortizations every year in the statement of comprehensive income enable the researchers to modify the current ratios by taking into account the amount to be estimated as a deferred grant, which should be classified as a short-term liability. This approach reflects a better principle of current ratio. The modified current ratios show lower current ratios, implying the financial constraints of public universities to settle short-term liabilities. Apparently, the practice in most public universities in Malaysia is not consistent with Section 24 and Section 2.0 of MPERS and is against international accounting practice, which clearly affects the transparency and quality of reporting. With this outcome, the decision may not be made effectively. One reason for the poor quality of reporting is that the reporting for higher education in Malaysia is just furnishing the requirement to report to the MOHE. The government does not use accounting information to make decisions. Therefore, the contention from resource dependency theory is applicable here, where organizations rely on external factors such as resource providers (Pfeffer and Salancik, 2003). Thus, the behavior of resource providers can affect management decisions, including what to disclose in financial statements (Bakri, Said, & Abd Karim, 2015; Ball et al., 2003). In this case, there is no demand for transparency and quality of MPUs' financial statements as these are not the critical input for the government's decision

making. Moreover, if the decision making is not based on an objective and reliable financial statement, then the quality of decision making is also jeopardized by this approach.

Universities	Current Ratios	New Modified Current Ratios	Classifications of Deferred Grants in 2018	Liability Ratios
U1	4.97	3.18	Deducted from Equity	9.57
U2	8.57	2.61	Non-current Liability	11.24
U3	21.87	3.23	Non-current Liability	55.97
U4	7.85	4.78	Non-current Liability	59.65
U5	12.69	3.59	Non-current Liability	35.13
U6	10.25	2.30	Non-current Liability	73.45
U7	17.64	5.47	Non-current Liability	57.77
U8	4.10	4.10	Current Liability & Non-current Liability	29.89
U9	3.45	0.95	Equity	27.41
U10	7.02	2.16	Non-current Liability	85.11
U11	12.39	6.78	Non-current Liability	89.13
U12	26.72	2.96	Non-current Liability	81.70
U13	56.73	6.07	Non-current Liability	65.93
U14	5.70	3.09	Non-current Liability	67.73
U15	13.16	5.80	Non-current Liability	89.61
U16	14.30	4.16	Non-current Liability	72.65
U17	1.44	1.44	Current Liability	27.06
U18	39.88	7.20	Non-current Liability	16.95
U19	44.01	4.42	Non-current Liability	69.91
U20	6.53	1.26	Non-current Liability	76.84
Average	15.96	3.91		55.14

MPERS Section 2, paragraph 2.20, states that there is an amount of liability in an entity if the entity has a present obligation legally or constructively to act or perform in a particular way. Furthermore, paragraph 2.21 continues to describe the settlement of this present obligation, including the conversion of that obligation to equity. Liability does not necessarily mean borrowing or contractual debt only. MPERS requires the deferred grant to be classified as liability as there is a present obligation of the entity. The liability ratio is also called gearing ratio, which measures whether the proportion of assets is financed by liabilities or equity. Overall, most universities suffer high liability ratios, which reflects the inefficient use or amortization of grants. This occurrence happens when a high amount of liabilities consists of the amount of deferred grant outstanding. Deferred grants result in high cash balance due to no cash outflow for related research and development activities.

Among the factors that contribute to outstanding deferred grants are research development activities that have not been completed or delayed. There are also public universities that receive allocations for development projects involving large grants. However, this project was delayed due to bureaucracy involving other government agencies. Table 2 shows 13 MPU's have average liability ratios exceeding 50%. Three public universities, namely, U1, U2, and U18, show the low level of gearing ratios. In comparison, four other public universities,

namely, U5, U8, U9, and U17, appear to have a normal debt ratio level. The mean of average liability ratio for MPUs is 55.14, which is significantly higher than the benchmark for the year 2016, with the liability ratio of 20.39 for the higher education sector in the United Kingdom (Mulholland, 2017). The result on liability ratios also supports resource dependency theory, where the resource providers—the government in this case—can influence the behavior of the organizations. The researchers posit that there is a lack of monitoring on the rate of disbursement of government funding relating to the research and development activities, resulting in some government funding being stuck in public universities, expired, and cannot be disbursed. In public institutions, the funds are classified as restricted and unrestricted. Government grants for the operation of organizations are normally classified under unrestricted fund while restricted fund is for funds that can only be used for special purposes according to the terms specified. The unused and expired government grant for research and development is parked under restricted grant and can no longer be used by universities. This issue is an essential element that should be improved by the MPUs. The results of this study uncover two critical issues concerning public universities: 1. less demand for quality financial statements and 2. lack of scrutiny and monitoring on the outcome of financial statements by the authority.

REGRESSION ANALYSIS

	N	Mean	Standard deviation	Minimum	Maximum
AMORT	80	0.14	0.15	0.03	0.83
EXPRATIO	80	1	0.09	0.65	1.17
RU	80	0.25	0.44	0	1
TOTASSETS	80	2,533,883,366	294885237	303,965,433	13,194,061,000
LEVERAGE	80	55.13	28.39	5.83	93.04

Amort: the total amortization of research grant and amortization of development grant / the average of total balance of research grant and development grant; Expratio: Total expenses / Total income, RU: 1 for research university, 0 for non-research university; Totassets: Total assets; Lev: Total liabilities / Total assets

The data are initially collected for many variables; however, some of the variables are highly correlated. For example, the variable of research universities (RU) is highly correlated with the rank and age of the universities. RU is an important variable as indicated in the Malaysia Education Blueprint (2015–2025), which envisions Malaysia to strengthen its RUs to be in the top 100 world universities (MOEM, 2015). Meanwhile, the variable of total assets is highly correlated with the total number of students of the university. Therefore, the regression analysis involves the above variables. Table 3 displays data from the 20 MPUs, where the total rate of amortization for research grant and development grant is 14% per year, with the maximum of 83% and the minimum of 3%. Overall, MPUs amortize the research grant and development grant in quite a slow manner, with the average of only 14%. The rate of amortization of research grant depends on the commitment of researchers to run the research activities. Some of the factors that contribute to the delay in the amortization of development grant are bureaucracy and the procedures of other government agencies. All the variables are apparently normally distributed, except for the rate of amortization. Thus, to improve the normality of the distribution, the variable is transformed into log. There are a few universities

that have expenses exceeding the total income, as evidenced by the maximum proportion of expenses at 1.17. On average, public universities utilize the entire income to finance the total expenses of the universities, as demonstrated by the mean of 1. Out of the 20 public universities, 5 are RUs, as shown by the RU mean of 25%. The total assets of MPUs range from RM 304 million to RM 13 billion worth of assets, with the average total assets of RM 2.5 billion. The maximum percentage of liabilities over total asset is 93.04% while the lowest is 5.83%. MPUs obviously have a large range of leverage with the average of 55.13%. It seems that MPUs have a large amount of present obligations to deliver.

	LOGAMORT	EXPRATIO	RU	TOTASSETS	LEVERAGE
LOGAMORT	1.00	-0.30**	0.36**	0.17	-0.51**
EXPRATIO	-0.30**	1.00	0.25*	0.05	0.09
RU	0.36**	0.25	1.00	0.21	-0.43**
TOTASSETS	0.17	0.05	0.21	1.00	-0.23*
LEVERAGE	-0.51**	0.09	-0.43**	-0.23*	1.00

Logamort: Log amortization of research grant and development grant / the average of total balance of research grant and development grant; the other variables are as denoted in Table 1.
 ** Correlation is significant at the 0.01 level (2-tailed).
 * Correlation is significant at the 0.05 level (2-tailed).

Dependent Variables	Logamort		Expratio	
	St. coef.	t-statistics	St. coef.	t-statistics
Indep Variables				
C		-8.197		32.020
RU	0.18	1.622	0.34**	2.850
Totassets	0.04	.408	0.04	.322
Lev	-0.42**	-3.882	0.25*	2.037
Adjusted R-Square	0.26		0.13	
N	80		80	

Denotations are the same as in Table 1 and Table 2.
 ** Correlation is significant at the 0.01 level
 * Correlation is significant at the 0.05 level

Table 4 demonstrates the Pearson correlation for all the variables, indicating that none of the variables are highly correlated with one another. The variable of the total rate of amortization of research grant and development grant is significantly negatively correlated with the total expenses over income ratio and the leverage but significantly positively correlated with the research university. Research university is also significantly positively correlated with the total expenses over income ratio and significantly negatively correlated with leverage. In addition, the leverage is significantly negatively correlated with the total assets. The correlation analysis highlights that Research University amortizes the research grant and the development grant faster while having the tendency to spend more than the income and having a higher leverage ratio. Table 5 provides the results of regression analysis for the amortization of research and development and the total expenses ratio as dependent variables. It shows that both dependent variables are associated with the leverage ratio. The slow amortization of research and development results in a higher amount of leverage. The higher expenses ratio is positively

associated with the research university and the leverage ratio. This result indicates that research universities have the tendency to incur a high proportion of expenses and be in a deficit situation. The proportion of expenses over total income is significantly related to leverage. Those universities that have a large amount of expenses have a large amount of present obligations. The possible reason for this occurrence is the pushing factor for research universities to climb up the international ranking. Transparency in financial statements allows a better formation of strategies for a better allocation of resources to achieve the government's plan.

DISCUSSION: WAY FORWARD TOWARD SDG 16

The findings above herald the conclusion that MPUs must exert considerable effort in achieving transparency of financial statements in line with SDG 16. The findings support the contention by Tan (2019) that there is insufficient, uncommon, and limited access to justice and information, indicating that Malaysia is still behind in its achievement toward SDG 16. The effort must not be in the hands of MPUs only, as the move to achieve sustainable development requires a concerted effort from the top (Adams, 2017). This move entails profound challenges that public universities need to overcome if Malaysia wants to have strong institutions and be at par with the global market. Although the government is responsible for achieving SDGs, this effort will not be fruitful without the collaborative effort of various parties, including governments, private and public sector organizations, and civil society organizations.

One of the critical challenges found by this research is that the less transparent and quality financial statements happened because the financial statements are not used for the government's decision making. The statements are prepared merely for submission to the Ministry. There also seems to be a lack of monitoring of the outcome reported from the financial statements, as evidenced by the high liability ratio. There have been high amounts of unutilized government grants in the unrestricted fund, thereby blocking the fund from being used for other purposes. This practice indicates an inefficient management of government grants, regardless of whether they are related to research or development. There is less difficulty for the public institutions to get the fund, a lack of monitoring on the outcome reported in financial statements, and, thereby, there is less demand for quality reporting. This inefficient approach is far from reaching the SDGs, particularly SDG 16. A low quality of reporting shows that the state is far from representing strong institutions. This finding prompts extensive effort to be done by various parties.

This study offers practical implications for the government and higher education toward achieving SDG 16. Adams (2017) promotes the formation of strategies by the government and organizations by framing toward the fulfillment of SDGs. In recent years, higher education institutions have been dealing with considerable uncertainties and challenges in achieving ambitious or unrealistic growth expectations (OfS, 2019). Therefore, it is critical for the government to closely monitor its decision-making process and the outcome of MPUs. The recommendations of this research are threefold. First, to improve the liquidity and gearing situation, the MOHE should allow an unfinished research grant from previous years to be transferred to an unrestricted reserve. This approach allows public universities to use the amount with more efficiency in order to finance the operation of universities as well as improve the facilities and infrastructure of universities. To avoid the misuse of this policy, MOHE needs to

have policy control to, for example, retract a certain amount that has not been used or has expired. This approach will also act as a control mechanism on the government grant given to the institutions and for better public resource allocations.

Second, despite having MPSAS for future reporting, it is also recommended that MOHE have guidelines for accounting and reporting specifically for MPUs, similar to the United Kingdom and Australia, such as the “Statement of Recommended Practice: Accounting for Further and Higher Education” and “Financial Statement Guidelines for Australian Higher Education Providers for the 2019 Reporting Period,” respectively. With such guidelines, the MPUs will have a consistent format for reporting financial statements, the terms used, and disclosure and accounting treatment. Better quality of reporting is demanded if the financial statements are used for decision making. Third, this study recommends that the government use financial statements as input for its decision making. This approach can be a tool for monitoring and be useful for decision making. The recommendations are appropriate to carry out if the Malaysian government is serious in achieving SDG 16, specifically peace, justice, and strong institutions.

CONCLUSION

This study aims to examine the transparency in MPUs in reporting financial statements by looking at whether we are on the path toward SDG 16 in terms of having transparent and strong institutions. This study is significant because public universities are government institutions funded by public funds that come mostly from taxpayers’ money. Therefore, these institutions are accountable to the public and the stakeholders. The stakeholders can scrutinize their performance, and any decisions of the government are watched and monitored by the public. A large amount of government fund has been spent on public universities. Often, however, the decisions made to allocate the spending are not based objectively on financial statements. They are mostly based on the budget and request of universities to the government. This method may promote inefficiency in public fund allocation. From the results above, this present study likewise suggests that the financial statements of MPUs are less transparent, as evidenced from the current ratios reported in their financial statements. The finding is consistent with the core premise of resource dependency theory that management decision, for example, the outcome of financial reporting in this case, is influenced by those who control the resources. The finding of this study contributes to the literature on higher education and resource dependency theory, and the outcome is applicable to other emerging countries that have a similar environment and culture to Malaysia. It seems that by focusing on the issue of transparency of financial statements, MPUs are still far from reaching SDG 16.

This study has limitations because the examination of transparency of financial statements focuses on current and liability ratios. Notwithstanding the importance of both ratios, future studies can utilize the index of quality and other features of quality financial statements. In addition, qualitative research method can be employed by interviewing officers in the ministries to get insights on the decision-making process and ways to better the process. Thus, the study calls for future research on the funding, financial management, and financial reporting of public education, particularly in emerging countries where the decision-making process is still vague.

Indeed, this present study has vast implications for the regulator, the government, higher education providers, and other stakeholders.

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