AUDITOR GENERAL'S REPORT 2016

THE FEDERAL GOVERNMENT'S FINANCIAL STATEMENT FOR THE YEAR 2016 AND FINANCIAL MANAGEMENT OF THE FEDERAL MINISTRIES / DEPARTMENTS AND STATUTORY BODIES

ACTIVITIES OF THE FEDERAL MINISTRIES / DEPARTMENTS

MANAGEMENT OF THE FEDERAL GOVERNMENT AND GOVERNMENT AGENCIES' COMPANIES

SERIES 1

NATIONAL AUDIT DEPARTMENT
MALAYSIA

SYNOPSIS

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NATIONAL AUDIT DEPARTMENT
MALAYSIA

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SECTION 1

SYNOPSIS

AUDITOR GENERAL'S REPORT FOR THE YEAR 2016

AUDIT OF
THE FEDERAL GOVERNMENT'S
FINANCIAL STATEMENT
FOR THE YEAR 2016
AND FINANCIAL MANAGEMENT
OF THE FEDERAL MINISTRIES /
DEPARTMENTS AND STATUTORY BODIES

NATIONAL AUDIT DEPARTMENT
MALAYSIA

PREFACE

PREFACE

1. Article 106 and 107 of the Federal Constitution and the Audit Act 1957 requires the Auditor General to audit the Federal Government's Financial Statement, financial management, activities of the Ministries/Departments/ Federal Statutory Bodies as well as management of the Federal Government companies and submit the reports to His Majesty, the Supreme Head of Malaysia and obtain his assent before tabling them in Parliament. To fulfil these responsibilities, the National Audit Department needs to carry out four (4) types of audit as follows:

1.1. **Attestation Audit** - to give an opinion as to whether the Federal Government's Financial Statement shows a true and fair view as well as its accounting records are properly maintained and updated accordingly;

1.2. **Compliance Audit** – to evaluate whether the financial management of the Federal Ministries/ Departments/Federal Statutory Bodies is in accordance with relevant financial laws and regulations;

1.3. **Performance Audit** – to evaluate whether the Federal Government's activities/programmes/projects have been carried out efficiently and economically to achieve their desired objectives/goals; and

1.4. **Government Companies' Management Audit** – to evaluate whether the Federal Government Companies have been managed in a proper and efficient manner as well as achieving their objectives.

2. My report on the Financial Statement and Financial Management of the Federal Government's Ministries/ Departments/Statutory Bodies for the Year 2016 consists of the following:

Part I : Certification of the Federal Government's Financial Statement for the Year Ended 31st December 2016

Part II : Financial Management of the Federal Government

Part III : Financial Management of Federal Ministries/Department/Statutory Bodies (Accountability Index)

Part IV : National Audit Department Involvement In Special Evaluation of Premier Grade Officers To Enhance Accountability of Public Financial Management

3. Audit on the Federal Government's Financial Statement for the Year 2016 revealed that the Statement as a whole reflected a true and fair view on the financial

position of the Federal Government as at 31st December 2016, its operations and cash flows for the year ended 31st December 2016 as well as its accounting records were properly maintained and updated accordingly. Meanwhile, the audit of financial management revealed that several Ministries/Departments and Statutory Bodies did not fully comply with financial regulations. Amongst others, these weaknesses were due to negligence in compliance with stipulated financial rules/procedures, insufficient manpower, lack of training in financial management, inadequate supervision and close monitoring.

4. Heads of Department had been informed earlier and their confirmation on all matters reported had been obtained. In addition, the National Audit Department undertook several initiatives to assist the Federal Government's Ministries/ Departments/Statutory Bodies mitigate weaknesses in their financial management. Amongst the initiatives that had been taken were as follows:

4.1. Implementation of a rating system based on Accountability Index (AI). This system rates the compliance of financial regulations based on main elements. For Federal Ministries and Departments, the main elements are Management Control, Budgetary Control, Receipting Control, Management of Procurement, Expenditure Control, Management of Trust Funds/Accounts and Deposits, Management of

Assets and Stores as well as Management of Government Vehicles. For Federal Statutory Bodies, the main elements are Management Control, Budgetary Control, Receipting Control, Management of Procurement, Expenditure Control, Management of Trust Funds/Accounts and Deposits, Management of Assets and Stores, Management of Investments, Loan and Financial Statement. Federal Ministries/ Departments/Statutory Bodies with excellent rating could be referenced as role models, thus motivating other Federal Ministries/Departments/Statutory Bodies to better improve and enhance their performance of financial management.

4.2. Implementation of financial management audits at Malaysian Diplomatic Missions abroad are conducted to evaluate compliance with relevant financial laws and regulations. For the year 2016, the National Audit Department audited six (6) Malaysian Diplomatic Missions abroad and seven (7) Federal Statutory Bodies Representative Offices abroad. These financial management audits focused on five (5) main elements namely Management Control, Receipting Control, Expenditure Control, Management of Trust Funds/ Accounts and Deposits as well as Management of Assets and Stores.

4.3. Implementation of surprise inspections at Federal government offices throughout the country is to ensure that Heads of Ministries/Departments safeguard public money, stamps or other valuable items in safety boxes, vaults, cash boxes or other repositories as stipulated in The Treasury Instructions. They must ensure that records kept are complete, up to date and periodically checked by senior officers. To ascertain its compliance, the National Audit Department carried out surprise inspection at 265 Federal government offices from 20 Ministries and 148 offices under 47 Statutory Bodies.

4.4. Implementation of the financial management performance of Premier Grade Officers by the National Audit Department is to evaluate the performance of Premier Grade Officers on financial management as one of the essential elements for their promotion to be confirmed. For the year 2016, the National Audit Department evaluated 63 Heads of Ministry/ Department/Agency. These evaluations indirectly enhanced the financial management of Ministry/ Department/Agency as the promotion of Heads of Ministry/Department/Agency can only be considered by the Public Service Department after the National Audit Department and Federal Treasury of Malaysia verified that the relevant officers had taken corrective actions on all weaknesses raised.

5. I would like to express my appreciation to all the officers in various Federal Ministries/Departments/Statutory Bodies for their full cooperation during the audit. I would

also like to record my gratitude to my officers who have shown full commitment and worked diligently to complete this report.

(TAN SRI DR. MADINAH BINTI MOHAMAD)
Auditor General
Malaysia

Putrajaya
8 May 2017

SYNOPSIS

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PART I - CERTIFICATION OF THE FEDERAL GOVERNMENT'S FINANCIAL STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2016

1. The Federal Government's Financial Statement for the year ended 31st December 2016 as a whole reflected a true and fair view of the financial position of the Federal Government and the accounting records were properly maintained and updated accordingly.

PART II - FINANCIAL MANAGEMENT OF THE FEDERAL GOVERNMENT

Overall Financial Management Performance

2. For the year 2016, the Federal Government received revenue amounting to RM212.421 billion, a decrease of RM6.668 billion (3.0%) from 2015 revenue of RM219.089 billion. The Malaysian Treasury has issued General Warrant No. 1 Year 2016 for the operating expenditure allocation of RM215.224 billion. An additional provision of RM2.279 billion was provided through a special allocation amounting to RM1.446 billion and an advance from the Contingency Fund of RM0.833 billion in 2016. However an Allocation Restriction Warrant was issued by

the Treasury amounting to RM5.203 billion in 2016. Hence, the final provision for operating expenditure in 2016 was RM212.300 billion in which a total amount of RM210.173 billion was spent. Whilst for development expenditure, Federal Ministries/Departments had spent RM41.995 billion (97.7%) from the approved allocation of RM43.003 billion. The Federal Government incurred a deficit of RM38.400 billion with its ratio to the Gross Domestic Product (GDP) at 3.12%. This deficit was financed by internal and external loans amounting to RM99.859 billion. Apart from financing development expenditure, the loans were also used to repay the existing debts and financed the Housing Loan Trust Fund.

PART III - FINANCIAL MANAGEMENT OF THE FEDERAL MINISTRIES/DEPARTMENTS/ STATUTORY BODIES

Financial Management of the Federal Ministries/ Departments/Statutory Bodies

3. The National Audit Department audited 25 Federal Ministries, 18 Federal Departments and 38 Federal Statutory Bodies in 2016 in order to evaluate whether their financial management (AI) was in accordance with related laws and financial regulations. The audit on Federal Ministries and Departments is conducted on a yearly basis whilst for the Federal Statutory Bodies it is on a 3-year rotation basis. Audit findings revealed that the overall

financial performance of the Ministries in 2016 had improved as compared to the previous two (2) years. In 2016, all 25 ministries were rated as **Excellent** as compared to 16 (64.0%) of 25 ministries in 2015 and 20 (83.3%) of 24 ministries in 2014. Similarly the performance of the annual financial management audit in Federal Departments showed an improvement, where a total of 16 (88.9%) departments were rated as **Excellent** in 2016 and two (2) were rated **Good**. For the Federal Statutory Bodies that are audited on a 3-year rotation basis, the financial management performance of 16 Agencies (42.1%) were rated **Excellent**, 19 Agencies (50.0%) were rated **Good** and three (3) Agencies (7.9%) were **Satisfactory**. These audit include the financial management audit on Youth and Sport Departments at headquarters level and 15 State offices as well as 13 PERKESO State offices throughout the country.

Financial Management of The Federal Statutory Bodies Representative Offices Abroad

4. The audit was also carried out in six (6) Malaysian Missions Diplomatic Office abroad under the purview of the Ministry of Foreign Affairs and seven (7) Statutory Body Representative Offices abroad.

Surprise Inspections in Financial Federal Ministries/ Statutory Bodies in States and District Offices

5. The National Audit Department also carried out surprise checks at 265 Responsibility and Cost Centres at state and district level under 25 Ministries and 147 offices under 47 Federal Statutory Body. Based on the audit findings, several issues were raised on stamp register, cash books and petty cash books were not properly maintained or updated accordingly; surprise inspections were not conducted as required and power was not delegated to the relevant officer in charge of safe-deposit box. The reports were submitted to relevant Heads of Department at Headquarters and State level for further action.

PART IV - NATIONAL AUDIT DEPARTMENT INVOLVEMENT IN SPECIAL EVALUATION OF PREMIER GRADE OFFICERS TO ENHANCE ACCOUNTABILITY OF PUBLIC FINANCIAL MANAGEMENT

Special Evaluation Towards Financial Management In Ministries/Departments

6. Besides conducting mandatory audits as provided under the law, the National Audit Department also carried out special evaluation on the financial management performance of Premier Grade Officers in various Ministries/Departments/Agencies. In Year 2016, a total of 63 Premier Grade Officers have been evaluated.

CONCLUSION

CONCLUSION

In general, the financial management performance of the Federal Ministries in 2016 have improved compared to previous years. In 2016, all 25 ministries (100%) were rated as excellent compared to 16 out of 25 ministries (64%) in 2015 and 20 out of 24 ministries (83.3%) in 2014.

Performance of the financial management audit conducted annually in 18 Federal Departments have also improved. In 2016, 16 departments (88.89%) were rated as **Excellent** and two (2) were rated **Good**. Whereas the performance for 38 Federal Statutory Bodies that were audited on a 3-year cycle basis, showed that 16 Agencies (39.5%) were rated **Excellent**, 19 Agencies (52.6%) were **Good** and three (3) Agencies (7.9%) were rated **Satisfactory**. The financial management performance could be further improved if Controlling Officers/Heads of Department undertake action to rectify the weaknesses as highlighted by the National Audit Department and preventive action to ensure that the same weaknesses do not recur. The following are our audit recommendations to further strengthen the performance of financial management:

a. Controlling Officers/Heads of Department should conduct comprehensive checks to determine whether weaknesses highlighted by the National

Audit Department also occur in other departments and Responsibility Centres as audits conducted by the National Audit Department were based on samples and specific scope. This is to ensure that corrective actions are taken if similiar weaknesses were found;

b. The involvement of Controlling Officers/Heads of Department should be intensified through a hands-on approach on financial matters;

c. Ministries/Departments should enhance the effectiveness of internal audit. Amongst others, they should ensure that internal auditors are given sufficient training and guidance with annual audit plans being prepared thoroughly and with due care so that auditing could be carried out according to priorities, be independent and objective in evaluation of internal controls and good governance as well as reports on significant findings and recommendations prepared;

d. Issues reported by the National Audit Department should be discussed in detail by the Audit Committee. These meetings should involve corrective, preventive and punitive action recommendations to ensure that the same issues do not recur;

e. Every Exit Conference with the National Audit Department should be chaired by the respective Secretary General/Head of Department so that they are informed on audit issues beforehand to enable appropriate action to be urgently taken apart from making improvements;

f. The Accountant-General of Malaysia can further strengthen Government financial management by ensuring the Inspectorate Unit plans and conducts periodic checks on Responsibility Centres;

g. Heads of Departments should establish a check and balance system, whereby job rotation, close supervision, surprise checks and periodic assesment on officers' skills and competencies are carried out. Training should also be conducted to enhance officers' skills to avoid incompetent and less knowledgeable officers making decisions at their discretion; and

h. Records on asset should be updated by Ministres/Departments in preparation towards the implementation of accrual accounting by the Federal Government.

National Audit Department
Putrajaya
8 May 2017

SECTION 2

SYNOPSIS

AUDITOR GENERAL'S REPORT FOR THE YEAR 2016 SERIES 1

ACTIVITIES OF THE FEDERAL MINISTRIES / DEPARTMENTS

NATIONAL AUDIT DEPARTMENT MALAYSIA

PREFACE

PREFACE

1. Article 106 and 107 of the Federal Constitution and the Audit Act 1957 require the Auditor General to audit the Federal Government's Financial Statement, financial management, activities of the Ministries/Departments as well as management of the Federal Government companies and submit the reports to His Majesty, the Supreme Head of Malaysia and obtain His assent before tabling them in Parliament. To fulfill these responsibilities, the National Audit Department needs to carry out four types of audit as follows:

1.1. Attestation Audit - to give an opinion as to whether the Federal Government's Financial Statement shows a true and fair view, as well as its accounting records are properly maintained and updated accordingly;

1.2. Compliance Audit - to evaluate whether the financial management of the Federal Ministries/ Departments is in accordance with relevant financial laws and regulations;

1.3. Performance Audit - to evaluate whether Federal Government activities have been implemented efficiently and economically so as to achieve its desired objectives/goals; and

1.4. Government Companies' Management Audit - to evaluate whether Federal Government Companies have been managed in a proper and efficient manner as well as achieving their objectives.

2. Beginning 2017, the Auditor General's report on the activities of the Ministries/Departments of the Federal Government will not be published together with the Management of the Federal Government Companies as in previous years. With the implementation of the National Audit Department's Transformation Plan since September 2016, it has established the Governance Audit Sector for more in-depth focus audit on government companies. Accordingly, the report only captures the implementation of activities of the ministries/departments of the Federal Government.

3. Performance Audit is conducted under Section 6 (d) of the Audit Act 1957 and as per international auditing standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI). This report consists of issues observed from the audit of 23 programmes/ activities/projects under 17 ministries/departments. The audit included procurement, construction, systems, programme implementation, maintenance and management of revenue.

4. In general, the ministries/departments have carried out activities as per the objectives set. However, there are

still drawbacks such as work/supplies/services not following specifications/low quality/unsuitability, delays in the provision and completion of projects, improper payments, waste and inefficiency in the management of government assets and revenue collection. The weaknesses are caused by negligence in complying with the rules/procedures established by the Government, the lack of meticulous planning in programmes/activities/projects and setting of scopes and specifications of tenders, lack of regular monitoring of work done by contractors/consultants; lack of skills in project management and inadequate attention to the success factors and impact of new programs/ activities/projects.

5. As in previous years, Heads of Department have been informed earlier of the audit findings through the exit conferences and confirmatory letters to Secretary General and Heads of Department to rectify the issues highlighted. Thus, I have proposed 90 recommendations for corrective action to rectify the identified weaknesses of the programmes/activities/projects.

6. The Auditor General's Dashboard (AG Dashboard) implemented since 31st May 2013 has achieved its objectives stipulated under the National Key Results Areas (NKRA) - Fighting Corruption under the Government Transformation Programme 2.0. The AG Dashboard displays issues reported in the Auditor General's Report and the status of corrective action taken by auditees. This

mechanism has successfully assisted ministries/ departments/government agencies to respond promptly to issues highlighted. It demonstrates the commitment of ministries/departments/government agencies to address issues reported in the Auditor General's Report and disseminate information and current status of audit issues to the public.

7. I would like to express my appreciation to all officers in the various Federal ministries/departments who have given their full cooperation to my officers during the audit. I would also like to record my gratitude and thanks to my officers who have shown total commitment and worked diligently to complete this report.

(TAN SRI DR. MADINAH BINTI MOHAMAD)
Auditor General of Malaysia
Putrajaya

19 May 2017

SYNOPSIS

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IMPLEMENTATION OF ACTIVITIES BY THE FEDERAL MINISTRIES/DEPARTMENTS

PRIME MINISTER'S DEPARTMENT

Public Private Partnership Unit

1. Management of Public Private Partnership (PPP) Micro Fund Programme

a. In line with the National Blue Ocean Strategy initiative, the Government introduced the PPP Micro Programme in the National Strategy Execution Summit's meeting on 20 June 2012. The PPP Micro Programme is divided into four components namely the PPP Micro Fund, PPP Micro Homestay Longhouse in Sabah and Sarawak, PPP Social and Small Scale Infrastructure in Sarawak. The objective of the PPP Micro Fund is to assist petty traders and hawkers in business development. Besides helping to improve the business image, the programme could also increase the income of poor households and support the Government's aspiration to become a high income nation. Since its implementation in 2012, the Government allocated a total of RM300 million to the Public Private Partnership Unit, Prime Minister Department (UKAS, JPM) for the distribution of these funds to implementing agencies namely the Ministry of Domestic Trade, Cooperatives and Consumerism (KPDNKK), the Ministry of Agriculture and Agro-based

Industry, the Ministry of Rural and Regional Development and the Ministry of Defence.

b. Audit conducted between November 2015 and December 2016 revealed that the management of the PPP Micro Fund was satisfactory in terms of its justification and funds distribution from UKAS to implementing agencies. However, there were some weaknesses in the implementation and monitoring of the programme as follows:

   i. targeted number of participants for the PPP Micro Fund Programme for Second Chance Programme and Drop Out Student Loans Programme by TEKUN was not achieved where the actual achievement was less than 50%;

   ii. outcome assessment of the PPP Micro Fund Programme was not carried out;

   iii. remaining funds totalling RM402,000 were not returned to the Armed Forces Ex-Servicemen Affairs Corporation (PERHEBAT);

   iv. approval for loans was not in accordance with the conditions specified where 37% of the borrowers had household income of more than RM3,000 and there was no evidence of loan applications made by 31.9% of the borrowers amounting to RM1.02 million because the application forms were not submitted to Audit for verification;

v. PPP Micro Fund Programme guidelines were not complied with, where administration fees were charged at a different rate from the approved rate, additional fees were charged on borrowers and 197 borrowers had overlapping loans;

vi. Notices of Demand (NOD) were issued to 5,679 (27.8%) out of 20,425 borrowers under TEKUN, PERHEBAT and Bank Rakyat for failing to repay the loans according to the agreed time frame. For the period 2014 to 2016, the percentage of recoveries decreased between 20.7% to 40.1%; and

vii. PPP Micro Fund Programme was not monitored periodically by UKAS causing irregularities in its implementation. However, there were improvements such as frequent meetings amongst its implementing agencies to evaluate the performance of this programme.

c. In order to ensure the weaknesses highlighted are rectified and that they do not recur, it is recommended that the related parties take the following actions:

i. TEKUN should review the mechanism for implementing and promoting the Second Chance Programme and the Drop-Out Student Loans Programme so that the targeted number of borrowers could be achieved;

ii. UKAS and the implementing agencies should establish a mechanism to evaluate outcome so that the effectiveness of their expenditure could be measured and periodic monitoring should be carried out on compliance of fund distribution;

iii. UKAS should improve further its guidelines especially on matters such as administration charges, additional charges and overlapping loans;

iv. TEKUN and KPDNKK (Bank Rakyat) as the implementing agencies should follow up after issuance of NOD to reduce loan arrears. Matters relating to NOD and its follow up actions should be highlighted in the guidelines and included as an agenda in the Micro PPP Programme Coordination Meeting; and

v. TEKUN should take proactive measures in maintaining records and documents of the borrowers for future reference and when needed.

MINISTRY OF FINANCE

Inland Revenue Board of Malaysia

2. Management of Income Tax Installment Payments through Monthly Tax Deduction

a. From 1st January 1995, the Inland Revenue Board of Malaysia (IRBM) begun implementing the Monthly Tax Deductions (MTD) scheme for employers to deduct monthly tax payment from eligible employee. The amount of tax deducted from employee’s remuneration should be made in accordance with the MTD Schedule under the Monthly Income Tax Deduction Guidelines (Deduction from Remuneration) 1994. For the purpose of enhancing the effectiveness of the MTD scheme, IRBM has set up the Employer Audit Unit (EAU) to conduct audit on employers. After the yearly tax assessment has been carried out by IRBM and if the employee’s total tax deduction is less than the tax payable, an instruction through CP38 will be issued to the employer to make additional deductions in monthly instalments from the remuneration of the taxpayer (other than the Monthly Tax Deductions) towards settlement of taxpayer’s income tax arrears.

b. Audit conducted between June and October 2016 revealed that the performance of EAU at 3 IRBM branches in carrying out compliance auditing was good as the number of employers audited achieved 122.9% in 2014 and 137.9% in 2015. Overall, EAU successfully audited 148,907 employers for the year 2014 and 2015 whereby under deducted tax amounting to RM234.60 million was raised and compounds amounting to RM37.26 million were issued to employers. However, there were several areas that require improvement as follows:

i. selecting sample of taxpayers randomly was less than effective in detecting non-compliance of laws and regulations by non-government employers;

ii. lack of auditing activities on two government employers resulted in non-compliance of laws and regulations as follows:

- delays between seven and 220 days in remitting MTD amounting to RM398,591 to IRBM from the last due date of remittance;
- failure to comply with the instruction to make additional tax deductions (CP38) amounting to RM75,111 from 18 taxpayers for the year 2014 and 2015;
- one government employer made insufficient additional tax deductions (CP38) amounting to RM4,018 from two taxpayers in 2014; and
- delays between 92 and 616 days by both government employers in deducting additional tax (CP38) amounting to RM36,679 from seven taxpayers.

iii. inefficiency in issuing and taking follow up actions on the CP38 instructions as follows:

- IRBM took between 31 and 2,909 days from the date of tax assessment to issue CP38 amounting to RM569,551; and

- tax increment was not imposed on 25 taxpayers who failed to settle their tax arrears amounting to RM205,580.

c. To further improve the management of income tax deductions through MTD and CP38, it is recommended that IRBM considers the following actions:

   i. increase the frequency of audits on government employers to ensure compliance with law and regulations;

   ii. establish time norms from the assessment date to the date of issuance of CP38 to enhance the monitoring process of CP38; and

   iii. ensure effective monitoring of installment payments and take stern action in order to ensure employer/taxpayer pay tax arrears as per the stipulated schedule.

MINISTRY OF AGRICULTURE AND AGRO-BASED INDUSTRY

3. Management of High Value Herbal Products Development Project

a. The High Value Herbal Products Development Project or Entry Point Project 1 (EPP 1) under the National Key Economic Areas (NKEA) Agriculture was started in 2011 until it achieved its targeted growth and transformation of the Malaysian economy by 2020. This project focuses on improving the quality of herbal products and enhancing its marketing to penetrate the global export market in nutraceutical products and botanical medicine. The Herbal Development Divison (HDD) under the Ministry of Agriculture and Agro-Based Industry (MOA) was given the mandate to strengthen and consolidate the national herbal industry from upstream to downstream segments. In addition, HDD also acts as co-ordinator between the Government, industry, research institutions/universities, anchor companies and farmers to improve the quality by adopting science into national herbal products to a higher level. There are 18 kinds of herb which are being given priority in the EPP 1 such as Misai Kucing, Tongkat Ali and Kacip Fatimah. Based on the Economic Transformation Programme (ETP) on agriculture, the objectives of EPP 1 by year 2020 are to generate Gross National Income (GNI) of RM2,200 million, creation of 1,800 jobs and 1,500 rural farmers as well as upscaling 300 manufacturers. A ceiling amount of RM610.22 million was approved for the period 2011 to 2020 and a sum of RM316.43 million has been allocated to finance EPP 1 from 2011 to 2016.

b. Audit carried out between November 2016 and February 2017 revealed that the EPP 1 Project achieved its objectives with regards to the number of employment opportunities created which was at 94.2%, upscaling manufacturing at 18.3% and creation of rural farmers at 68.2% after 6 years of its implementation since 2011. The development of the value chain system (SriHerba) was successfully implemented in-house by Forest Research Institute of Malaysia (FRIM) and initiatives on research and monographs have been successfully implemented and published. However, the achievement of GNI objective was only at 4.4% because EPP 1 was highly dependent on the results of ongoing pre-clinical/clinical research. Some of the weaknesses identified were as follows:

i. contract document for 53 projects were not signed and 4 contracts were signed late between 194 and 335 days;

ii. herbal planting initiative on a commercial scale was carried out simultaneously with pre-clinical/clinical tests before obtaining the results on whether the particular herbs could be categorized as high value herbal product;

iii. 25 building units in the Pasir Raja Herbal Park, Dungun, Terengganu valued at RM3.84 million were not utilized since 2 years 4 months from the date of delivery;

iv. other types of herbs which were not listed among the 18 herbs under EPP 1 were commercially planted involving 188.53 hectares in the states of Johor and Terengganu;

v. contract was terminated due to claims by anchor company using false documents for pre-clinical study;

vi. legal charges to obtain third-party funding by anchor company totalling RM40,705 were paid even though it was outside the financing scope of EPP 1;

vii. the Stick Pad Packing Machine and quality control equipment valued at RM1.33 million was paid for even though they were not delivered; and

viii. laboratory equipment and assets valued at RM1.14 million in the Institute For Medical Research (IMR) were not used for 4 to 5 years because the laboratory was not functioning.

c. To ensure that the EPP 1 Project is being implemented effectively, it is recommended that the parties involved consider the following actions:

i. MOA should review the effectiveness of EPP 1 with all interrelated concerned parties such as ECERDC/ anchor companies/Agencies/universities/ research institutions with regards to its strategic plan to achieve all objectives conclusively by year 2020;

ii. MOA should ensure that contract documents are prepared and duly signed without any delay to safeguard Government interests and to avoid disputes which may arise;

iii. MOA should review the herbal planting and pre-clinical/clinical scope initiatives systematically and on a timely basis to ensure a high valued herb is produced before planting commercially in the Herbal Park and Herb Cluster;

iv. ECERDC should ensure that buildings constructed are occupied immediately;

v. MOA and DOA should review the business plan and farmers' letter of undertaking in terms of cultivation requirements other than the herbs listed in the EPP 1 and justify the practical requirements for the cultivation of spices in accordance with the objectives and provisions of EPP 1;

vi. MOA should immediately resolve issues related to claims as a result of termination of contract, costs beyond scope and equipment not delivered; and

vii. the Ministry of Health should urgently ensure that GLP laboratories in IMR operate as intended.

MINISTRY OF RURAL AND REGIONAL DEVELOPMENT

4. Desa Lestari Programme

a. The Desa Lestari Programme was launched in 2013 as an initiative by the Ministry of Rural and Regional Development (KKLW) under the Government

Transformation Programme 2.0, to transform rural areas into developed areas with a high-income resident population. The objectives of the Desa Lestari Programme are to empower communities with the ability to plan and to implement development projects by strengthening economic activity and entrepreneurship and also to create job opportunities. Each selected village is required to establish a co-operative society under the Malaysia Co-operative Societies Commission (SKM) to facilitate various programmes such as rural tourism programme, retailing, agriculture, livestock, plantation and machinery services. Up to 2016, a total of 80 selected villages were provided with an allocation amounting to RM114.68 million through agencies under the KKLW including the Federal Land Consolidation and Rehabilitation Authority (FELCRA), Rubber Industry Smallholders Development Authority (RISDA), Kedah Regional Development Authority (KEDA), South Kelantan Development Authority (KESEDAR), Central Terengganu Development Authority (KETENGAH) and South East Johore Development Authority (KEJORA). KKLW issued the Implementation Desa Lestari Programme Guidelines (Rural 21st Century) in May 2013 and April 2015 to be used by agencies/co-operative societies for related procurement.

b. Audit performed between December 2016 and March 2017 revealed that the Desa Lestari Programme increased employment opportunities and generated economic growth for participating villagers. However, the implementation of this project was less than satisfactory due to inefficient project execution, poor monitoring and administration of contracts. The weaknesses identified which need attention are as follows:

i. there was excess allocation amounting to RM16.04 million which was transferred to the agencies under KKLW;

ii. 19 projects worth RM5.32 million in 12 co-operative societies were unsuccessful and abandoned;

iii. improper payment of RM1.13 million because contract was signed without authority and project was implemented without approval;

iv. procurement amounting to RM2.08 million were split into 6 quotations involving 3 co-operative societies to avoid the tendering process; and

v. procurement of stingless bees amounting to RM4.56 million was done through direct negotiation without the approval of the Ministry of Finance and there was no contract signed between KKLW and the supplier.

c. In order to ensure Desa Lestari Programme is managed properly, efficiently, economically and the Government obtains best value for money spent, it is recommended that KKLW considers the following:

i. investigations should be conducted and disciplinary action taken against employees who do not comply with the financial regulations by splitting procurement, abuse of authority and making improper payments;

ii. equipment, vehicles and machineries should be used optimally. Any co-operative society which fails to maintain facilities in a sustainable manner should be terminated from the programme and the facilities handed over to a more competitive co-operative;

iii. investigations should be conducted on the Co-operative Board Member who used the grants for personal benefit;

iv. review the sustainability of the Desa Lestari Programme which failed to achieve the objectives of the programme as a whole; and

v. discussions should be made with Malaysia Co-operative Societies Commission to ensure that registered co-operative societies comply with the Co-operatives Societies Act 1993 before awarding them with the Desa Lestari grant.

MINISTRY OF NATURAL RESOURCES AND ENVIRONMENT

Department of Survey and Mapping Malaysia

5. Management of eKadaster Project

a. The Department of Survey and Mapping Malaysia (JUPEM) is an agency under the Ministry of Natural Resources and Environment (NRE) which is responsible for managing the cadastral survey. In line with the government policies outlined under the 5th Key Thrust of the National Mission, JUPEM has developed the eKadaster project under the Ninth Malaysia Plan to enhance the service delivery system of the cadastral survey. Among the objectives of the eKadaster project are improving the service delivery system of land title ownership from two years to two months, integration between eKadaster and eTanah in sharing of spatial information towards efficiency of service delivery system, and to use Global Positioning System (GPS) in the cadastral survey. The project was developed on 26 December 2006 and completed on 15 May 2009. Beginning on 1 May 2010 eKadaster has been used throughout Malaysia except for Sabah and Sarawak. The Ministry of Finance has approved the appointment of vendors through direct negotiations with the contract worth RM287.62 million.

b. Audit conducted between June and September 2016 at JUPEM Headquarters and five JUPEM state offices revealed that generally, management of the eKadaster project was satisfactory because the system was fully utilized at all 13 JUPEM state offices starting from May 2010. However, the project objectives were not fully achieved. Among the weaknesses identified which need attention are as follows:

i. submission of an extension of time four months after the original completion date and approval by the NRE through the fourth supplementary agreement signed on 15 May 2009 (actual date of completion) were improper. As a result, Liquidated and Ascertained Damages (LAD) amounting to RM14.38 million could not be imposed on the vendor;

ii. implementation of the eKadaster project was not satisfactory because the period of completion of the cadastral survey until issuance of the Certified Plan for 81.7% files did not achieve the target (less than 60 days);

iii. application control weaknesses:

- eKadaster access control system including user ID and password were exposed to risk of manipulation; and

- inconsistencies of asset registration information between Asset Management System (SPA) and eKadaster Asset Management System (SPAK) may cause difficulties in monitoring the asset.

iv. physical and environmental control weaknesses:

- the fire extinguisher systems in the server room at all JUPEM States (except the state of Negeri Sembilan) were not maintained on a regular basis after the contract expired on 23 July 2013; and
- antivirus software which was not updated since the contract expired on 19 May 2016 may expose the servers to latest virus threats and risk of losing data.

v. Business Continuity Plan (BCP) for eKadaster was not prepared.

c. To rectify the weaknesses highlighted in the report and to prevent them from recurring, it is recommended that related parties consider the following:

i. the practice of appointing contractors that have been named by the Ministry of Finance through direct negotiations without clear justification should cease immediately;

ii. Ministry of Finance should provide sufficient funds for periodic maintenance of eKadaster equipment and applications;

iii. JUPEM should review a reasonable time frame for issuance of a Certified Plan by taking into account the related factors; and

iv. JUPEM should discuss problems of the system in the ICT Steering Committee.

MINISTRY OF DOMESTIC TRADE, CO-OPERATIVES AND CONSUMERISM

6. Price Standardisation Programme for Controlled Goods in Sarawak

a. In 2009, the Ministry of Domestic Trade, Co-Operatives and Consumerism (KPDNKK) through the Secretariat of National Price Council (NPC) implemented the Price Standardisation Programme (PPH) in Sarawak. PPH includes three projects, namely Distribution of Essential Goods (BP); Price of Liquefied Petroleum Gas (LPG); and Price Standardization of Petrol and Diesel/ Community Drumming (CD). Through PPH, the Government will absorb the cost of transportation and appoint a Service Provider (transporter) for the distribution of controlled goods (BKP) to rural and remote areas in Sarawak. Products will be sold to the community through the Sales Centre/Point of Sales (POS) within the government controlled price. POS appointed is a premise suggested by the transporter and is approved by KPDNKK. KPDNKK has issued the Guidelines for Selection of Service Provider (Transporter) for the implementation of PPH.

b. Audit conducted between March and October 2016 revealed that generally, the performance of PPH in Sarawak was not satisfactory because BKP could not be fully distributed to the target groups within the government controlled price. This happened due to lack of monitoring of delivery by the transporter and POS which failed to display price tags and did not sell within the government controlled price range. Some of the weaknesses identified were as follows:

i. financial performance for the period 2013 to 2015 was 93.2% to 99% whereas the achievement for distribution of BKP was between 47.3% to 98.0%;

ii. payments made to transporter did not comply with the terms as mentioned in the agreement resulting in improper payment amounting to RM150,866;

iii. transporters failed to supply other BP except rice. Monthly quota for sugar, flour and cooking oil have been used to instead supply various types of rice; and

iv. BKP has been sold by the POS at a higher price than the price fixed by the Government. The mark-up price range was between RM0.06 to RM9.40.

c. In order to ensure weaknesses highlighted do not recur in the future and the Government gets best value for money spent and the objectives of the programme are achieved, it is recommended that KPDNKK undertakes the following actions:

i. KPDNKK should review the guidelines to ensure selection of the distribution areas, transporter as well as POS are properly and accurately carried out. Permission for the transporters to choose their own distribution areas, sources of supply and POS should also be reviewed;

ii. KPDNKK should take appropriate action against transporters who fail to carry out their duties, are involved in fraudulent cases and misconduct and are not committed to the implementation of the entire programme by imposing fines or termination of the contract and blacklisting the companies concerned;

iii. KPDNKK should improve and revise the methods of supervision and monitoring of POS to ensure total BKP distributed to POS is the same as claimed by the transporter;

iv. KPDNKK should take appropriate action by blacklisting POS that do not sell BKP within the government controlled price and fail to comply with the procedures in their respective premises;

v. KPDNKK should review different types of rice in terms of economic value and quality to replace the national rice that no longer exists in the market in order to control the supply of rice under the programme; and

vi. KPDNKK should take action against the enforcement officers of KPDNKK Sarawak who are responsible for monitoring the programme but failed to carry out their duties.

MINISTRY OF WORKS / PUBLIC WORKS DEPARTMENT

7. *Construction of Rawang Bypass in Bandar Rawang*

a. Construction of Rawang Bypass in Bandar Rawang is a high-impact infrastructure project which links the road network to Kuala Lumpur City. The project was approved under the 9th Malaysia Plan (RMKe-9) and it aimed to solve the traffic congestion in Bandar Rawang and to improve the existing road network to Kuala Lumpur City. The project involved the upgrading of 10.72 km existing roads and the construction of new four-lane dual carriageway for 12.58 km. The project began in Bandar Baru Selayang through Templer Park across Kanching and Hutan Simpan Serendah to federal road in Sungai Choh. The contractor was appointed through direct negotiation by using the Design and Build method amounting to RM203.47 million. The project was started on 16 July 2005 and was expected to be completed by 12 January 2008. A Supplemental Agreement No. 1 was signed on 16 March 2009 related to the special provisions for changes in the price of civil, mechanical and electrical engineering works without additional costs. On 2nd December 2011, the Supplemental Agreement No. 2 was approved to include additional scope of work involving construction of an alternative road through Taman Warisan Negeri Selangor for 3.3 km, including 2.64 km elevated structure and also upgrading work of 1.57 km existing federal roads. The construction period for these additional works commenced on 15 December

2011 until 17 April 2015 (40 months) for an additional cost of RM390 million. Six Extensions of Time (EOT) for 2,132 days were approved and the new completion date was 16 March 2017.

b. Audit conducted between October and December 2016 revealed that the project was well managed in terms of contract administration and quality of works. However, there were some weaknesses identified as follows:

   i. the project took a long time to complete with EOT of 2,132 days. The delay was caused by third parties' work procedures and processes which were beyond Public Works Department's (JKR) control. This caused the contractor to claim losses and expenses amounting to RM7.88 million;

   ii. design changes in the overlapping routes between elevated structures in this project with the Assam Jawa Taman Rimba Highway (LATAR) resulted in additional cost of RM34.2 million;

   iii. delay in settling the compensation for land acquisition with valid justification resulted in payment of penalty amounting to RM5.52 million to interested parties; and

   iv. 12.2% progress claims by the contractor amounting to RM64.6 million were paid late between 15 and 118 days.

c. In order to overcome the weaknesses highlighted and prevent recurrence in the future, it is recommended that Unit Tanah KKR should report progress payment for each land acquisition as an agenda in the management or other related meetings.

MINISTRY OF WORKS/PUBLIC WORKS DEPARTMENT

8. Construction of Flyover Linking Jalan Nangka and Jalan Perda Timur Through Jalan Padang Lalang/ Landasan Keretapi/Jalan Permatang Rawa, Bukit Mertajam, Pulau Pinang

a. The Construction of Flyover Linking Jalan Nangka and Jalan Perda Timur Through Jalan Padang Lalang/ Landasan Keretapi/Jalan Permatang Rawa, Bukit Mertajam, Pulau Pinang is a project under the 10th Malaysia Plan (RMKe-10) with ceiling cost of RM90 million. The objective of this construction is to solve the problem of traffic congestion in Bandar Perda which is rapidly developing and often disrupted by railway lines. It is also as an alternative to Federal Route FT001 (Bukit Mertajam to Butterworth) which could save travelling time. In addition, this project also aims to reduce accident rates especially for motorcyclists. The client for this project was the Ministry of Works (KKR). The Public Works Department (JKR) was appointed as Implementing Agency whereas the Superintending Officer was Pulau Pinang's JKR Director. The project was implemented through direct negotiation between the Government and Gold Bridge Engineering &

Construction Berhad (GBECB) using the Conventional (Consultant) method with the original contract value amounting to RM89.50 million. The duration of the project was 30 months which was from 30 January 2012 to 29 July 2014. The project was approved with three Extension of Time (EOT) for 641 days and the new completion date was 30 April 2016. On 9 June 2009, the Ministry of Finance (MOF) approved the appointment of Adroit Consulting Engineers Sdn. Bhd. (ACESB) as the consultant for the project which was responsible for preparation of the detailed design, preparation of tender documents and supervision of the project. The scope of the project was to build a main flyover of 773 meters linking Jalan Nangka and Jalan Perda Timur, a ramp (upward and downward) to the main flyover, a pedestrian bridge of 40-meter parallel to the main flyover and other related works. However, an additional agreement was signed with the contractor for the construction of two additional ramps to the original scope of the contract. GBECB should have performed the additional work within the contract period, which was approved earlier. The contract value for the additional agreement was RM25.26 million. The project was completed and is still in the defect liability period.

b. Audit performed between August and October 2016 revealed that the project had been completed on the stipulated date. However, there were several weaknesses as follows:

i. change of scope in the quantity of ramps to be built resulted in delay in commencement of the project and increase in project costs;

ii. project was delayed for 641 days causing claims for losses and expenses by the contractor which were estimated at RM5.31 million; and

iii. construction methods for road barrier/New Jersey Barrier did not comply to standards.

c. To overcome the weaknesses raised and to make sure they do not recur in the future, it is recommended that JKR should comply with the KPKR Directive No. 10/2012 dated 18 April 2012 regarding the Implementation of Risk Management Plan to identify risks that could lead to project delays and increased costs to the Government.

MINISTRY OF TRANSPORT

Road Transport Department of Malaysia
9. Development of mySIKAP

a. The Computer System Revamp Project in the Road Transport Department of Malaysia (JPJ) known as mySIKAP aims to enhance the capacity of the computer systems towards strengthening JPJ service delivery. The project was approved by the Ministry of Finance (MOF) on 11 June 2010 through restricted tender. The contract worth RM282 million which comprises system development and warranty/maintenance was signed on 22 December 2010 for the period 26 July 2010 to 25 July 2014. This project comprises construction, installation, implementation and maintenance which covers five main scopes namely Integrated Business Application (application for JPJ's transactions); Integrated Solution Infrastructure (data management solutions and disaster recovery services); Services (support services); provision of data centre infrastructure; and procurement of hardware and software. Since mySIKAP was implemented in July 2013, JPJ's mainframe usage was high which reached 100% utilisation of the central processing unit (CPU). This caused JPJ's services at the counters, kiosks, online transactions and partners throughout the country to be affected especially during peak periods.

b. Audit conducted between May and November 2016 revealed that the overall management of mySIKAP was satisfactory as it was fully utilised at all the 16 JPJ state branches (11 states in Peninsular Malaysia, 3 Federal Territory, Sabah and Sarawak) since 2014. In addition, mySIKAP had also successfully administered the registration and licensing of vehicles system effectively, thus improving JPJ service delivery. However, the project implementation was less than satisfactory and its objectives have not been fully achieved. Among the weaknesses identified and requiring attention are as follows:

i. The Government's interests were not adequately safeguarded in the contract documents resulting in payment made not being value for money;

ii. capacity needs analysis was not carried out thoroughly to identify the requirements for mySIKAP's mainframe;

iii. JPJ failed to provide a complete Service Level Agreement (SLA) and the element of penalties was not specified;

iv. 821 out of 4,190 vehicles registered in Peninsular Malaysia, Sabah and Sarawak renewed the Motor Vehicle License in regions with lower rates and not supported by the Customs Form 3. This resulted in leakage of government revenue amounting to RM773,340 for the period 2014 to 2016; and

v. the system failed to block the issuance/renewal of the Competent Driving License for holders of Learner's License (L) or Probationary Driving License (P) which had been blacklisted. As a result, a total of 365 holders of L and P blacklisted were still able to obtain full licenses.

c. To ensure that all the weaknesses highlighted are rectified and mySIKAP is able to support the JPJ operations in providing best service to the public, other agencies and stakeholders, it is recommended that JPJ take the following measures:

i. carry out a thorough requirement study before procuring the mainframe and to take into account the impact of any change request on the mainframe so as not to compromise the performance of mySIKAP;

ii. ensure that SLA is prepared taking into account the clauses which safeguard Government's interest;

iii. integrate mySIKAP with the Royal Malaysian Customs Department system in order to reduce leakage of government revenue as a result of motor vehicle licenses being renewed outside the declaration area; and

iv. ensure that the system is capable of deterring any transaction involving blacklisted driver's licenses.

MINISTRY OF ENERGY, GREEN TECHNOLOGY AND WATER

Sabah Electricity Sdn. Bhd.

10. Construction of Electric Transmission Line from Kimanis to Lok Kawi and Kolopis's Main Substation, Sabah

a. The objective of the construction project is to distribute electricity from the Independent Power Plant of SPR Energy Sdn. Bhd. (IPP SPR) and Kimanis Power Sdn. Bhd. (IPP KPSB) into Sabah's grid system at a cost of

RM211.96 million through ‘Design and Build’ method. The project owner is the Ministry of Energy, Green Technology and Water (KeTTHA) and monitored by the Energy Sector, KeTTHA. The implementing agency was the Sabah Electricity Sdn. Bhd. (SESB) and the project was financed by soft loans from the Ministry of Finance (MOF). The project began on 16 June 2012 and was completed on 26 April 2016 after taking into account four extension of time (EOT). The implementation of this project involved acquisition of 527 plots of land of which 422 plots (80.1%) were private plots and 105 plots of land were properties of the State Government, Public Works Department reserves, Drainage and Irrigation Department reserves and village reserves.

b. Audit conducted between September and November 2016 revealed that generally, the performance of the electricity transmission line construction project from Kimanis to the Lok Kawi and Kolopis main substation was good. Overall, the project was completed in April 2016 and has been operating as per its objective. However, there were some weaknesses in the management aspect of the project as follows:

   i. scope and design of the project were not finalised prior to its submission to the Value Management Lab (VM) for deliberation resulting in VM not fully achieving its objectives;

ii. six procurements amounting to RM74.39 million were executed through direct negotiations, contrary to the Economic Planning Unit's (EPU) directives, which required procurements for the project to be implemented through open tender;

iii. tender evaluation process only considered financial risks aspect;

iv. management of EOT such as delays in approval, inconsistent justification with the contract terms and Global Settlement condition were not complied with;

v. payment of professional fees to Project Management Consultant (PMC) was not supported with proof of service rendered documents; and

vi. shortcomings in the design and monitoring of slope protection works resulting in additional costs incurred by SESB amounting to RM21.83 million.

c. To overcome the weaknesses highlighted, it is recommended that the relevant parties involved consider the following actions:

   i. SESB should ensure that the scope and design of a project is finalised before it is deliberated in the VM so that the decision made by VM is accurate and attains its objective;

ii. KeTTHA should set clear project KPIs, so that the level of performance can be measured and monitored;

iii. SESB should improve the PMC agreement in the future by including clauses on deliverables to be achieved by the PMC and other requirements such as proof of service to be rendered before any claim is approved; and

iv. SESB should reassess the payments of emergency orders for slope protection works.

MINISTRY OF HEALTH/ PUBLIC WORKS DEPARTMENT

11. *Construction of Obstetrics Complex Tengku Ampuan Rahimah Hospital, Klang, Selangor*

a. The construction of Obstetrics Complex Tengku Ampuan Rahimah Hospital, Klang, Selangor (HTAR) is a project under the 9th Malaysia Plan (RMKe-9) built on a 63 acres land in the Mukim of Klang, Selangor. It aims to enhance obstetrics and neo-natal (O&G) services, overcome patient congestion and upgrading the existing infrastructure to cater for the current needs of O&G services. The approved project costs was RM180 million which consisted of two phases including the procurement of medical equipment at the cost of RM30 million. The costs for Phase I and Phase 2 as per *As Tendered Detailed Abstract* were RM10.42 million and RM150.12 million respectively. Phase 1 of the project consisted of infrastructure works such as earthworks, relocating existing structures, traffic management, building parking lots and construction of temporary and permanent infrastructures. The Public Works Department (JKR) appointed Region Circle Sdn. Bhd. (RCSB) through open tender to implement Phase 1 with a contract sum of RM8.82 million and it was completed on 10 June 2013. Phase 2 of the project involved the construction of hospital buildings for a period of 36 months which started on 6 September 2013 and the initial completion date was on 5 September 2016. This phase involved the construction of an eight-storey obstetrics complex, a two-storey plant room, an overhead bridge, an elevator lobby, covered parking, covered pathways, landscaping works, civil & structural, and mechanical & electrical works. JKR with the approval of the Ministry of Finance (MOF) awarded the contract to Pembinaan Sujaman Sdn. Bhd. through a restricted tender contract sum of RM128 million. The project was implemented through the conventional method and JKR appointed five consultants with approval from MOF to facilitate the management and implementation of the project with a total cost of RM16.31 million as per the Memorandum of Agreement. The owner and implementing agency of the project were the Ministry of Health (MOH) and JKR respectively. In the earlier stage of implementation, the Director of Health Works Division, JKR was appointed as Superintending Officer (SO). However, effective from

19 May 2015, the responsibility of the SO was handed over to the Director of Special Projects Team (Building), Policy and Corporate Management Branch, JKR.

b. Audit conducted between August and December 2016 revealed that the project management of Phase 2, HTAR relating to planning and supervision was unsatisfactory. Shortcomings in planning and supervision of the project by JKR, MOH and the consultants led the contractor being unable to commence work after the handing over of the project site. Among weaknesses identified in the Phase 2 project management were as follows:

   i. failure of the consultants to perform their role effectively causing the contractor to apply for 36 variation orders and five remeasurement works with an additional cost of RM16.23 million and RM1.01 million respectively. On the other hand, JKR failed to supervise and take immediate action on the consultants;

   ii. weaknesses of JKR/consultants resulted in the extension of time (EOT) given to the contractor for 333 days causing delays in the completion of the project incurring additional consultancy services cost amounting RM1.05 million; and

   iii. lack of commitment and participation by MOH in the Site and Technical Coordination Meetings contributing to weak project planning and execution of construction works.

c. To overcome the weaknesses raised and further improve the quality of management in the construction projects, it is recommended that the parties involved give due consideration to the following:

   i. punitive action should be taken against officers who failed to examine, verify, validate and monitor the works of the consultant in accordance with the regulations;

   ii. JKR/MOF should ensure that the appointed consultant is qualified and experienced to avoid any discrepancies, omissions and contradictions in the preparation of tender drawings and bills of quantities according to client's requirements;

   iii. enhance the level of coordination and collaboration between MOH, JKR and consultants in identifying and determining the functions and operations requirement of the hospital to overcome contradictions and changes in tender drawings once finalised; and

   iv. losses arising from non-compliance identified during inspections by third party appointed by the Government should be borne by the officers/ consultants who failed to supervise/execute the works.

MINISTRY OF HEALTH / MINISTRY OF PUBLIC WORK

12. Construction Project of Bera Hospital, Pahang

a. The construction of Bera Hospital was a project under the 9th Malaysia Plan (RMKe-9) built on 35.51 acres of land in Mukim Triang, Bera, Pahang. Bera Hospital was planned to accommodate 40 beds and was designed for future expansion to 60 beds. The project consisted of two packages where Package 1 involved earthworks while Package 2 consisted of construction of four hospital blocks and support buildings comprising six units of class D quarters, 16 units of class F quarters, 16 units of class G quarters and the nurses' hostel. Package 1 was implemented by Tofan Group Sdn. Bhd. which was appointed by the Public Works Department (JKR) through open tender with contract cost of RM4.60 million. Package 1 was implemented using the conventional method and completed on 26 June 2011. The Ministry of Finance (MOF) appointed Maju Jaya Pasarana Sdn. Bhd. (MJPSB) for construction of Package 2 through direct negotiation. The contract cost for Package 2 was RM88 million and was also implemented using the conventional method. The date of site possession for Package 2 was 10 July 2012 and the scheduled date for completion was 9 January 2015. To facilitate the management and implementation of the project, JKR appointed architectural, civil and structural, electrical and quantity surveyor consultants while JKR was responsible for mechanical discipline. The project owner was the Ministry of Health (MOH) and JKR as the implementing agency. The project director was the Director of Health Works Branch, JKR Headquarters and the Superintending Officer is the Director of JKR, Pahang.

b. Audit conducted between May and July 2016 revealed that the management and construction of the Package 2 was not satisfactory due to inefficiency in planning, implementation and monitoring resulting in incompletion of the project and termination of the contract. Among the weaknesses identified were as follows:

   i. the appointed contractor was unable to perform even after being given an extension of time (EOT) for 690 days (23 months). The contractor was also given 20 warning letters and reminders along with three Notices for the Purpose to Terminate the Contractor;

   ii. approval for EOT 1, 3 and 4 totalling 496 days had to be given to the contractor because of poor management in project planning and implementation by JKR and consultants;

   iii. construction drawings of all disciplines were poorly coordinated and not finalised by consultants resulting in changes and contradictions. Verification and validation of construction drawings were not effectively carried out by JKR to ensure no contradictions existed between construction drawings. JKR also failed to supervise and take immediate action against the consultants;

iv. the contractor failed to appoint a qualified Mechanical & Electrical (M&E) Industrialized Building System (IBS) Coordinator for a period of 24 months (45.3%) out of 53 months of the contract period. They also did not appoint an Independent Inspection Authority/ Inspector Welder to verify the welding works of roof trusses. In addition, there were shortage of workers at the construction site between 9.7% and 83.0% compared to the prescribed norms. JKR was also less than effective in enforcing compliance with contract clauses; and

v. construction works did not comply with drawings and specifications and there were defects. In addition, no corrective action was taken on Non-Compliance Report (NCR) which led to subsequent work delays and the construction materials at the project site were not stored properly. This was due to ineffective supervision by the consultants and JKR.

c. To ensure the hospital construction project can be completed within the stipulated period and weaknesses highlighted do not recur, it is recommended that related parties take the following actions:

i. only contractors registered under the specialisation code B29 for Health Building Works should be considered for the tender evaluation to avoid project failure which will not benefit the Government and the people;

ii. punitive action should be taken against officials who did not perform their duties causing failure in the completion of the project and losses to Government in terms of time and money;

iii. enhance the level of coordination and collaboration between MOH, JKR and consultants in identifying and determining the functions and operations requirements of the hospital and to implement the Building Information Modelling System to overcome contradictions and changes in construction drawings;

iv. JKR and consultants should ensure effective monitoring and supervision on the management of the construction site. Corrective action on all NCR should be taken within the stipulated period; and

v. JKR should immediately appoint a new contractor who meets the criteria of tender evaluation, capable and experienced to complete the project in order to prevent existing structures from further material impairment.

MINISTRY OF HUMAN RESOURCES

Manpower Department
13. Procurement for Industrial Training Institute (ILP) Upgrading Project

a. The Manpower Department (JTM) was established in 1967 under the Ministry of Human Resources (KSM) in order to provide and execute skill training programmes to fulfil the requirement and improve employee's level of skill in industrial sector. In order to provide vocational training, 32 Manpower Department Training Institutes (ILJTM) have been set up nationwide consisting of 23 Industrial Training Institutes (ILP), eight Advance Technology Training Centres (ADTEC) and one Japan Malaysia Technical Institute (JMTI). The courses offered by all institutes are certificate and diploma level. Under the 10th Malaysia Plan (RMKe-10), RM184 million had been allocated for JTM to upgrade the ILJTM. From this total allocation, RM149 million had been spent to upgrade the ILP which included the procurement of learning equipment, construction and renovation works of workshops and student facilities. Procurement process of upgrading the ILP was executed through tenders and quotations involving KSM, JTM and ILP. With regard to procurement by quotation, ILP and JTM were only responsible in determining the Department's estimation price while the procurement process was done by KSM. Whereas for procurement by tenders, it was fully managed by the Finance and Procurement Division of KSM.

Furthermore, the payment process was done by JTM for both types of procurement.

b. Audit performed between May and July 2016 revealed that the ILP Upgrading Project provided better and more comfortable learning facilities to their students, lecturers and staff. However, the execution of the project was less than satisfactory due to inefficiencies in project execution and contract administration. Among the weaknesses found and needing attention are as follows:

   i. procurement for works amounting to RM10.42 million were split into 48 quotations and 17 direct purchases for works at ILP Bukit Katil, Kuantan, Labuan and Kuala Lumpur to avoid tendering process;

   ii. use of transportation service and equipment facilities in the contract amounting to RM34,500 without the Controlling Officer’s approval;

   iii. Certificate of Practical Completion (CPC) was issued before completion of work;

   iv. measurement as per Bill of Quantity (BQ) exceeded the actual measurement on site resulting in an over payment of RM0.16 million;

   v. nine equipment amounting to RM0.71 million were removed from the contract due to failure of the contractor in supplying equipment according to the stipulated price, specifications or time of delivery. However, action for contract termination, forfeiture of bond and fines were not taken immediately as stipulated in the contract;

vi. the malfunctioned Bandsaw machine costing RM68,000 was repaired 343 days late at ILP Miri; and

vii. a delay of 30 to 117 days in signing the contract for works and supply procurement.

c. To ensure efficient management of procurement, economically and best value for money, it is recommended that KSM/JTM consider the following actions:

i. investigation and disciplinary action should be taken against officers who are proven to violate financial rules by splitting procurement to avoid the tender process;

ii. reports should be made to the Ministry of Finance and respective professional Boards regarding work not completed by suppliers/contractors and negligence of consultants in exercising the professional standard of care;

iii. detailed planning should be done before procurement to ensure the equipment and facility can be used optimally;

iv. re-evaluate the supplier's services by establishing a Service Level Agreement (SLA) to ensure the supplier maintains equipment within the stipulated time frame; and

v. collect fines imposed and blacklist the supplier or company that fails to comply with the terms and conditions of the contract.

MINISTRY OF WOMEN, FAMILY AND COMMUNITY DEVELOPMENT

Department of Social Welfare
14. Aid and Services Programmes for Senior Citizen

a. The Department of Social Welfare (JKM) under the Ministry of Women, Family and Community Development (KPWKM) is responsible to create a harmonious society through the delivery of social development at all levels. JKM targets senior citizens (those aged 60 years and above, living alone or from underprivileged family) to improve well-being through protection care services and development programmes. Among the assistance and services provided by JKM to the targeted groups are monthly financial aid and service activities. Financial aid consists of two categories namely Senior Citizens Assistance Scheme

(BOT) of RM300 per month per person to eligible targeted groups and providing pocket money of RM30 per month per person to all residents of Rumah Seri Kenangan (RSK). Whereas there are three service activities namely Activity Centre For Older Persons (PAWE), Senior Citizens Care Unit Programme (UPWE) and Rumah Seri Kenangan (RSK).

b. Audit carried out between September and December 2016 revealed that, the UPWE and RSK programmes were satisfactorily managed in accordance with the guidelines. However, BOT and PAWE programmes were less than satisfactory due to weaknesses identified as follows:

   i. five of 12 PKMD visited did not comply with the instructions set by the Director of Social Welfare that required BOT payment to be made through banks. Payment in cash for BOT involved RM547,200 for the month of November 2016;

   ii. weaknesses in BOT cash distribution such as counting cash money in the presence of many people, weaknesses in verification of receipt and payment process, cards for financial aid's claim were not equipped with security features, and there were BOT payments made to recipients who had passed away;

iii. a total expenditure of RM70,688 by PAWE was not in accordance with the guidelines and no application was made for such expenses;

iv. misuse of PAWE grant allocation by lending out a total of RM95,200 to the supervisor and NGOs who managed and operated the PAWE; and

v. no application was made for the over expenditure of RM46,733 during procurement of equipment and supplies for PAWE.

c. In order to rectify the weaknesses highlighted and to ensure they do not recur, KPWKM is recommended to consider the following:

i. set up an internal investigation committee to look into the misuse of PAWE grants and trace back documents which were not submitted for audit verification. In the event of negligence, stern action should be taken against the officers involved;

ii. improve the monitoring of aid and services programmes for senior citizen; and

iii. BOT, PAWE and UPWE guidelines should be reviewed and updated for improvement.

MINISTRY OF DEFENCE

Royal Malaysian Air Force

15. Procurement of Domestic Equipment Requirements and Aircraft Spare Parts in Markas Pemerintahan Bantuan Udara and Materiel Udara

a. *Markas Pemerintahan Bantuan Udara* (MPBU) is an organisation under the headquarters of Royal Malaysian Air Force (TUDM). The roles of MPBU are to coordinate contract implementation, planning and logistics support towards TUDM's assets to achieve an optimal level of operations. MPBU is responsible to provide engineering management services, asset management and planning, procurement of aircraft spare parts, inventory management, components repair and technical services as well as procurement of domestic equipment such as clothing and accessories, furniture and others. Procurement in MPBU is based on purchase requisitions by users and the transactions will be recorded in the *Sistem Pengurusan Komputer Bersepadu* (SPKB). *Materiel Udara* (MATRA) was established in 1990 and is tasked to receive, inspect, store and distribute inventory items. MATRA has been established in Kuala Lumpur, Subang, Butterworth, Kuantan and Gong Kedak.

b. Audit carried out between September and December 2016 revealed that procurement management was satisfactory due to proper procurement planning and procurement through direct purchases, quotations, tender and direct negotiations were in compliance with the procedures. In addition, financial performance for 2014 until 2016 was also satisfactory. However, there were several weaknesses as follows:

i. *Liquidated Damages* (LD) amounting to RM1.01 million for the period 2015 and 2016 were not finalised;

ii. assets worth RM160,038 were purchased by using allocation under the Supplies and Other Materials;

iii. maintenance contract was not made after the warranty period for Automated Storage and Retrieval System (ASRS) expired; and

iv. aircraft spare parts were not used leading to Inactive Stock, Non-moving Stock and Obsolete Stock.

c. To improve the procurement management in MPBU and MATRA, the Ministry of Defence and MPBU should ensure the following:

i. expedite the LD process against contractors that did not comply with respective contract terms;

ii. ensure that maintenance contract is made prior to expiry of warranty; and

iii. monitor the procurement process to purchase aircraft spare parts based on actual needs to avoid wastage while updating the inventory data to identify actual inactive spare parts.

MINISTRY OF DEFENCE

16. Maintenance and Usage of Royal Malaysia Air Force's Special Vehicles

a. The Aerospace Ground Support Vehicle (AGSV) is a special vehicle that supports the operations of the Royal Malaysian Air Force (TUDM) aircrafts. There are 375 AGSVs classified into three categories namely Aircraft Support, Airfield Support and Combat Support, and sub-categorised into 11 types based on respective functions. The repair and maintenance of AGSV comprise three levels namely Organisation Level Maintenance (OLM) and Intermediate Level Maintenance (ILM) operated by the RMAF, and Depot Level Maintenance (DLM) by appointed contractors. AGSVs are stationed at 10 TUDM Airbases in Butterworth, Kuantan, Gong Kedak, Kuala Lumpur, Labuan, Subang, Kuching, Bukit Ibam, Bukit Lunchu and Royal Air Force College, Alor Setar. The objectives of the repair and maintenance of AGSV are to improve its performance, preparedness and to optimise its usage in all operations.

b. Audit carried out between September and December 2016 revealed that the overall management of the repair and maintenance of AGSV were carried out in line with its objectives. However, there were weaknesses identified as follows:

i. delays in repair and maintenance works between seven and 390 days due to quotation process, Technical Committee Meetings, Procurement Committee Meetings, or issuing Local Orders;

ii. fines amounting to RM52,570 were not imposed for 93 maintenance works that exceeded the agreed Turn Around Time (TAT) between one and 372 days;

iii. annual percentage of 47.3% availability for AGSV was below the 70% target; and

iv. ten maintenance works were delayed between 34 and 137 days due to unavailability of Approved Maintenance Organisation (AMO) certificates.

c. To further improve the management of repair and maintenance for AGSV, the Ministry of Defence should consider the following actions:

i. review work processes by establishing a reasonable time frame for the completion of each work process;

ii. establish an action plan for AGSV which had exceeded the life span thus affecting AGSV availability; and

iii. establish a pre-determined time frame for the contractor to obtain the AMO certificate to avoid delays in repair and maintenance works.

MINISTRY OF HOME AFFAIRS

Immigration Department of Malaysia

17. *Management of Removal of Illegal Immigrants and Detention Depots*

a. The Immigration Department of Malaysia (JIM) is responsible for issuing passports/travel documents to Malaysians, issuing visa, pass and work permit to foreign nationals entering Malaysia, and regulating the movement of people at authorised point of entry as provided by the Immigration Act 1959/63 and Immigration Regulations 1963. Unlawful entry or presence is an offence under the Immigration Act 1959/63 such as not possessing a travel document, overstaying, abusing or violating visit pass, or using forged travel document. A foreigner who commits any of these offences is deemed to be an illegal immigrant (PATI) and will be removed from Malaysia after all documentation processes are completed and will be blacklisted if convicted. PATI will be detained in the Immigration Detention Depot until the investigation and legal process are completed. The objective of the detention depot is to ensure the detainees are managed and controlled in a secure and effective manner. It also serves as a detention centre for foreign prisoners who have served their sentences before being removed from Malaysia. The Depot and Detainee Management Division is responsible for managing the detention and removal of PATI in Malaysia except for the state of Sabah. The detention of PATI at Temporary Detention

Center (PTS) in Sabah is under the responsibility of the National Security Council (MKN) whilst the JIM Sabah handles only documentation and security escorts during the removal process. Thirteen detention depots were gazetted in Malaysia and their total capacity are 13,250 PATI comprising 10,200 men and 3,050 women. From 2014 to 2016, the number of detainees was 265,550 PATI comprising various citizenships and a total of 179,364 PATI have been removed to their respective home countries via sea, land or air. The highest PATI removed were Indonesians (75,580) followed by Bangladeshi (27,283) and Burmese (17,627). The total expenditure for detention and removal of PATI was RM95.24 million for 2014 to 2016.

b. Audit conducted between November 2016 and January 2017 revealed that the management of PATI removal was less than satisfactory due to removed PATIs were not blacklisted in the myIMMs information system (myIMMs) and inefficient contract administration. However, the depot management was satisfactory. Among weaknesses to be addressed by JIM and Ministry of Home Affairs (MOHA) are as follows:

    i. the number of removed PATIs between myIMMs and JIM Enforcement Division Headquarters differed by 155,813, PATIs that have been removed are still not blacklisted in the myIMMs and PATIs were not updated into the Suspect List in the myIMMs.

ii. ferry service contracts were renewed for four times with the same company from 2007 to 2017 and there were no travel insurance coverage for removed PATIs from 2007 to 2015;

iii. contractor did not perform Clause 11 of the ferry services contract by not sending PATIs to Surabaya;

iv. controlled documents in deportation transit centre were poorly managed because they were handled by contractors; and

v. the appointed caterers failed to provide meals according to specified menus in the contract and there was no quarantine room at the detention depot while others were poorly managed.

c. To ensure the removal of PATI and the management of detention depot are carried out efficiently to achieve its objectives, it is recommended MOHA/JIM considers the following actions:

   i. JIM should ensure that all removed PATIs are blacklisted in myIMMs to prevent them from re-entering Malaysia;

ii. MOHA should ensure its contract administration complies with regulations, and review the contract clauses to safeguard Government's interest. The Ministry of Finance should be more cautious in approving further extensions of contract;

iii. removal of Indonesian PATIs should be fully managed by JIM till the point of exit while extending cooperation with the Indonesian immigration authority to verify the arrival number of removed PATI for payment purpose; and

iv. JIM should closely monitor the performance of the caterer in regard to their adherence to the contract.

MINISTRY OF HOME AFFAIRS

Royal Malaysian Police

18. Management of Exhibits at the Narcotics Crime Investigation Department

a. The Narcotics Crime Investigation Department (JSJN) of the Royal Malaysian Police (RMP) was established to eradicate drug trafficking and drug abuse. JSJN enforces laws related to drug trafficking and drug abuse through the Dangerous Drugs Act 1952, the Dangerous Drugs Act (Special Preventive Measures) 1985, the Dangerous Drugs Act (Forfeiture of Property) 1988 and the Poisons Act 1952. The main objective of JSJN is to curb the country's drug problem by collecting, reviewing, assessing and disseminating information and investigate the activities of traffickers and drug trafficking syndicates. JSJN is also responsible for eradicating drug precursors and organise programmes for the prevention of drug abuse. JSJN is required to manage the exhibits in a safe, secure and orderly manner in accordance with regulations prescribed to facilitate the judicial process. Among the exhibits seized/confiscated through enforcement are cash and valuable items, movable and immovable assets and drugs. JSJN is headed by a Director with the rank of Commissioner of Police and assisted by two Deputy Directors, namely, Deputy Director of Enforcement/ Prevention/General Policing and Deputy Director of Forfeiture of Property/Legal/Detainee. The Divisions responsible for managing the exhibits are the Forfeiture of Property Division (BPH) and Legal/Investigation Division (BPS).

b. Audit conducted between May and September 2016 revealed that maintenance of records, storage and disposal/forfeiture of exhibits by BPH was satisfactory. However, the management of exhibits by BPS was less than satisfactory. There were several weaknesses that need to be improved by JSJN as follows:

   i. storage of chemical exhibits were not in compliance with the Occupational Safety and Health Act 1994 and the Safety Work Procedures was not established;

ii. the exhibits were not stored in a systematic and orderly manner;

iii. 147 exhibits were submitted late to Department of Chemistry, Malaysia (DCM) while the DCM was also late in returning 260 exhibit to JSJN;

iv. 49 exhibits with a No Further Action (NFA) status were not disposed of; and

v. exhibits in the store were not continuously inspected and monitored.

c. In order to overcome these weaknesses, it is recommended that RMP consider the following:

i. ensure each exhibit is securely stored and proper record is maintained and updated by the Investigating Officer/Store Officer. In addition, spot checks should be carried out in accordance with Treasury Instruction 309;

ii. ensure adequate and secure storage for drug related exhibits including flammable and dangerous chemicals. The handling of the exhibits should comply with the Occupational Safety and Health Act 1994; and

iii. dispose of exhibits after judicial processes have been concluded.

MINISTRY OF HOME AFFAIRS

Royal Malaysian Police

19. Procurement of Medium Size Helicopters Model AW 139 for Air Operations Force

a. The Air Operations Force (PGU) is one of the forces under the Department of Homeland Security and Public Order of the Royal Malaysian Police (RMP). The main roles of PGU are to carry out crime prevention operations, public order survey and provide operational support. In order for effective operations, PGU needs medium size helicopters that can accommodate more passengers. Under the 10th Malaysia Plan (RMKe-10) Rolling Plan 4, RMP was given approval to procure two medium sized helicopters. The procurement was approved by the Ministry of Finance (MOF) in April 2015 through direct negotiation with Galaxy Helicopters (M) Sdn. Berhad. The value of the contract was EUR33.35 million and the period of the contract was for three years beginning 1 July 2015 until 30 June 2018. The objectives of the procurement are to strengthen the ability of PGU in addressing the issue of security and public order at large, increase responsiveness and mobility of the RMP Special Forces for 24 hours a day and 7 days a week (24/7) without time restrictions and geographical limitations across the country, and provide air operational support to other government agencies.

b. Audit carried out between October and December 2016 revealed that the procurement of 2 medium sized helicopters model AW 139 was satisfactory. As at 22 December 2016, both helicopters were used for the purpose of operational support and training with total flight hours for helicopter 1 was 116 hours 30 minutes and 76 hour 55 minutes for helicopter 2. However, there were weaknesses as follows:

i. contract price stated in Clause 5 amounting to EUR33.35 million differed from the itemised contract price which amounted to EUR32.47 million with a difference of EUR0.88 million; and

ii. Certificate of Final Acceptance Test (FAT) was issued although there was non-compliance of contract specifications.

c. To rectify the weaknesses raised and to ensure they do not recur in the procurement of aircraft, it is recommended that the Ministry of Home Affairs (MOHA)/PGU considers the following:

i. MOHA should ensure contract price stated in the contract is in accordance with the Appendix attached to the contract; and

ii. MOHA should review Clause 10 of the Contract - Inspection and Acceptance of the Helicopter and Equipment by specifying the terms allowing Certificate of Final Acceptance Test to be issued despite non-compliance with the contract specifications. MOHA and PGU should also perform close monitoring to ensure the contractor complies with all contract specifications. If the contractor does not comply, action such as retaining final progress payment or confiscate/forfeiting the performance bond should be taken.

MINISTRY OF EDUCATION

20. Management of Building Structure and other School Facilities Repairment Project in Sabah

a. Repairs of building structure and other school facilities in Sabah is under the Phase 2 of structural repairs of school buildings. It is a continuation from Phase 1 project which was completed in 2013. The Phase 1 project focuses on the temporary stabilisation of the school building structure. The objectives of the repairs are to ensure that all school structures are in good condition and safe to be occupied. The implementation of Phase 2 is based on the design and build method as the scope of the project requires specific expertise and it has no standard design or drawing.

b. Audit carried out in three schools between July and October 2016 revealed that in general, the management of the project was satisfactory and the building was safe to be occupied. The contractors were awarded through open tender with pre-qualification process. The repair works were completed within the stipulated time and contract administration was good. However, there were several weaknesses identified as follows:

i. repair works did not comply with specifications and were of low quality; and

ii. ineffective communication and coordination between Implementation Coordination Unit (ICU) of the Prime Minister's Office (JPM) and the Ministry of Education (MOE) resulting in the previously repaired *surau*, costing RM135,735 being demolished even though it was still under the defects liability period. Instead, a new *surau* worth RM469,960 was built.

c. In order to overcome the weaknesses highlighted, it is recommended that the MOE/ICU consider the following:

i. MOE should ensure all defects are rectified before the defects liability period expires. Failing to do that, the contractor should be penalised through deduction/retention of performance bonds;

ii. MOE should ensure project site supervision and monitoring are carried out continuously and effectively to avoid defects resulting from low quality workmanship in the implementation of future projects; and

iii. ICU should refer to MOE before the approval of any school project in order to avoid duplication of implementing projects that cause losses to the Government. An effective coordination between ICU and the MOE should be established.

MINISTRY OF EDUCATION

21. Construction of Vocational Secondary School, Tanjung Piai, Pontian, Johor

a. The construction of the Vocational Secondary School (SMV), Tanjung Piai under the Ministry of Education (MOE) was approved under the 10^{th} Malaysia Plan (RMKe-10) to meet the requirements of the MOE's Key Result Areas in mainstreaming vocational and skills. Its main objective is to provide infrastructure and facilities in general engineering majors. Three courses offered are Welding Technology, Machinery Industry and Automotive Technology. This project was carried out on a 30-acres land in Kampung Sungai Buntu, Penerok, Pontian, Johor and consists of construction of 16 classrooms, four workshops, two laboratories, two hostel blocks, one unit of canteen, warden's house and *surau*. The Ministry of Finance approved the procurement of this project through restricted tender. The contract was awarded to Struktur Serumpun Sdn. Bhd. at a cost of RM54.08 million and was to be completed within 24 months from 30 March 2012. The project owner is the Technical and Vocational Education Division while the Education Development Division is the implementing agency and Superintending Officer. MOE appointed supervising consultants for the design, civil and structural, mechanical and electrical, and quantity surveyor costing RM6.69 million to monitor the construction work of the project.

b. Audit carried out between August and November 2016 revealed that the management of the construction projects was less than satisfactory as the objective to provide the infrastructure and facilities in general engineering majors were not achieved. Some of the weaknesses identified were as follows:

   i. SMV construction was not completed yet even though after four extensions of time were approved;

   ii. two out of 17 scopes of the project implemented did not adhere to the Value Management Lab's conclusion report;

   iii. the appointment of consultants and contractors could not be verified because the relevant documents were not submitted;

   iv. delay in signing of contract between Government and Contractor;

   v. unsuitable construction design;

   vi. poor quality of workmanship;

   vii. electrical works were not done in accordance with the technical specifications as specified in the contract;

   viii. delays in identifying equipment/machinery and determining electrical load at the workshop;

   ix. the measurement for the furniture and the built-in furniture were not according to specifications stated in Bill of Quantities and Table Tender Drawings; and

x. direct payments to sub-contractors exceeded 90% of the value of works as specified in regulations.

c. In order to rectify the weaknesses highlighted, it is recommended that:

i. MOE should ensure availability of electricity supply immediately to the workshop's block so that the project could be completed;

ii. MOE should ensure all documents are controlled and stored securely. If an important file or document is lost, a police report should be lodged;

iii. MOE should ensure contracts are signed within four months after the acceptance letter as specified in the regulations. Reminder and reprimand should be issued to consultants and contractors who fail to comply with the regulations;

iv. MOE and the consultants should closely monitor the work of contractors. Any defect and damage once identified should be rectified immediately by the contractor and rectification should not be restricted to the defect liability period only;

v. Consultants should ensure price adjustment is made accurately for furniture which are not according to stated quantity and specifications to safeguard the interest of the Government;

vi. MOE should take punitive action against officers responsible for causing delays in the completion of the project;

vii. MOE should closely monitor direct payments to sub-contractors in order not to exceed 90% of the value of works in accordance to the stipulated regulation; and

viii. MOE should ensure that the appointed consultants are qualified and experienced in order to avoid any construction and furniture design flaws, delay in determination of electrical load for workshop and low quality of construction works.

MINISTRY OF EDUCATION

22. Construction of Malaysian Arts School, Kuching, Sarawak

a. Construction of Malaysian Arts School in Kuching, Sarawak (SSeM Kuching) is one of the efforts to improve arts education in producing skilled and talented students in the field of arts from the states of Sarawak and Sabah. The total project cost is RM81.30 million and divided into two phases. Phase 1 which involves earthworks amounting to RM16.30 million financed through Private Finance Initiative (PFI) and awarded to Gcorp Engineering Sdn. Bhd. was completed on 22 September 2009. Whereas, the second phase involves building construction works through conventional method amounting to RM65 million was awarded to PN Construction Sdn. Bhd. by restricted tender.

b. Audit carried out between October 2016 and January 2017 revealed that the construction of SSeM Kuching was completed and began its operation in July 2016. However, there were some weaknesses identified such as defects were not rectified within the defect liability period and poor quality construction works, as-built drawings was not submitted, and equipment received were not registered.

c. To rectify the weaknesses highlighted in the report and to ensure they do not recur, it is recommended the relevant parties consider the following actions:

   i. Ministry of Education (MOE) should ensure contract clauses and specifications are complied with in order to achieve quality work and stern action should be taken against those who fail to comply;

   ii. MOE should ensure that all equipment are verified, tested and inspected by the consultant, contractor and school management during the project handing over process. The school management should have the list of equipment in order to ensure that the equipment received met the stated specifications and in good condition as well as safe for use. The list could also assist the school management to register the assets accordingly; and

iii. consultant/Development Division of MOE should closely supervise/monitor the works performed by the contractor to avoid defects due to poor workmanship. In addition, MOE should make a formal complaint on the weaknesses of the consultant to the Ministry of Finance.

MINISTRY OF HIGHER EDUCATION

23. *Management of MyBrain15 Scholarships Programme*

a. MyBrain15 Scholarships Programme (MyBrain15) is a financing programme by the Ministry of Higher Education (MOHE) by funding of tuition fees, maintenance and thesis allowance for Malaysian who is on full time post graduate studies. The programmes implemented through MyBrain15 are MyPhD, MyMaster and MyPhD Industry. MyBrain15 is one of the efforts by the Government to increase the number of professionals with a PhD certification in Malaysia. The objectives of this programme are to facilitate the Government's efforts in producing 60,000 Malaysian PhD holders by 2023, to increase the number of knowledgeable and highly skilled professionals based on innovation and creativity for stimulating economic growth and local industry, and to establish groups of professionals as a catalyst for research and development. This programme was initiated under the 10^{th} Malaysia Plan (RMKe-10) and is set to continue under the 11^{th} Malaysia Plan (RMKe-11). As at December 2016, a total of 56,605 students have been sponsored under this programme with total expenditure of RM887.81 million. MyBrain15 includes tuition fees, allowance for thesis and journal publication and maintenance allowance for unemployed PhD students. From 2011 to 2015, the maximum financing for a MyPhD student was RM122,600; RM50,000 for a MyPhD Industry student, and RM10,000 for a MyMaster student. However from 2016 onwards, financing amount for MyPhD students had been reduced to RM88,000 and the MyPhD Industry is no longer offered by the Ministry.

b. Audit performed between December 2016 and March 2017 revealed that MOHE achieved the targeted scholarship award for 2011 to 2015. However, the overall management of MyBrain15 was less satisfactory due to inefficiencies in programme implementation and contract administration. The weaknesses identified were as follows:

   i. the approval process of 5,527 applicants for MyBrain15 were not properly done due to the MyBrain15 Scholarship Programme Committee

(JKBPM15) meetings' minutes were not duly signed by the Secretary General as the Chairman;

ii. no written confirmation from the MyBrain15 Unit/ Scholarships Division on the list of qualified applicants before submitting to JKBPM15 for approval;

iii. the delegation of power to sign MyBrain15 agreement was not updated in accordance with the requirements of the Government Contracts Act, 1949;

iv. duly stamped agreement and guarantor requirement were not set for MyPhD Industry programme;

v. time taken to update payment data into student's ledger exceeded eight months;

vi. payments of tuition fees and maintenance allowances were not updated into the student's ledger; and

vii. poor management on collection of compensation and repayment from defaulters.

c. To ensure efficient and economic management of MyBrain15 as well as Government gets best value for money spent, it is recommended that MOHE considers the following:

   i. approval process by JKBPM15 should be conducted in accordance to rules and procedures stipulated;

ii. management of scholarship payment should be carried out in accordance to related work processes and financial regulations;

iii. monitoring and enforcement on the terms of agreement should be carried out to safeguard Government's interests;

iv. compensation and repayment should be collected from students who have had their scholarships terminated in accordance to terms stipulated in the agreement.

CONCLUSION

CONCLUSION

In general, Ministries/Departments have properly planned their programmes/activities/projects. However, in terms of implementation, there were several weaknesses that should be resolved promptly to ensure that each programme/ activity/project is implemented in an efficient, economical and effective manner to achieve the stated objectives. In order to improve on the weaknesses highlighted or to avoid their recurrence, the following recommendations are made:

a. since the National Audit Department conducted the audit based on selected samples and scopes, Secretary General of Ministries/Heads of Department should carry out a thorough examination to ascertain whether other programmes/activities/projects have the same weaknesses and thereby take corrective action and improvements. In relation to this, other than conducting evaluation on internal controls, the Internal Audit Department should carry out procurement and performance audits on the management of programmes/activities/projects to determine whether programmes/activities/projects are implemented efficiently, economically and effectively in achieving the stated objective.

b. Based on audit observations, there were several weaknesses in the implementation of programmes/ activities/projects due to lack of monitoring/supervision by responsible parties, insufficient technical expertise and too much reliance on consultants/contractors, lack of coordination among agencies involved as well as internal issues faced by contractors. These weaknesses caused the delay in completion of programmes/activities/projects within the stipulated time, unsatisfactory quality of work, and cost escalation for programmes/activities/projects. As a result, the Government did not reap best value for money for expenditure incurred in the implementation of programmes/activities/projects. In addition, the objectives of the programmes/activities/projects were not fully achieved and were of lesser impact on targeted groups. Hence, it is recommended that:

   i. a detailed study on Government projects needs to be carried out before approval for implementation. For this purpose, in accordance with Treasury Instruction 182.1, agencies need to submit complete information of programmes/activities/projects such as status of projects site, project summary, project ceiling, annual allocation and project implementation schedule to the technical department. This is to ensure that all projects are implemented according to schedule and the Government reaps best value for money;

ii. an integrated planning among agencies involved needs to be carried out at the early stage of project implementation in particular for gigantic programmes/activities/projects. For example Department of Sewerage Services, Department of Environment, Department of Irrigation and Drainage, local authorities, Fire and Rescue Department of Malaysia, utility providers such as water, electricity and telecommunications, Land Office and state governments need to be consulted before projects are implemented. Such consultations are needed to ensure all basic facilities are provided and programmes/activities/ projects are implemented smoothly;

iii. Ministries/Departments must ensure that projects worth RM50 million and above comply with the stipulated Value Management Guideline issued by the Economic Planning Unit (EPU), Prime Minister's Department;

iv. Ministries/Departments shall comply with the Guidelines for Planning and Building Regulations issued by the Standards and Cost Sub-Committee as a reference for the National Development Planning Committee (Jawatankuasa Perancang Pembangunan Negara) when planning for works procurement to ensure that buildings are built according to stipulated standard and cost allocation;

v. Controlling Officers/Heads of Department must be competent on Government procurement procedures and provide sufficient training to procurement officers. Competency and trainings of procurement officers are important to prevent misconduct, leakage of public fund, safeguard Government interest and reap best value for money in every government procurement;

vi. enhance monitoring and enforcement mechanism on projects/programmes/activities to ensure that these are carried out in accordance with its stipulated contract schedule and specifications in order to avoid any wastages and projects/ programmes/activities not achieving the intended impact;

vii. Controlling Officers/Heads of Department shall improve on the management of Government assets to avoid wastage and seriously consider the importance of maintenance, monitoring and supervision. Records on asset and inventory must be updated promptly in preparation for the Federal Government’s shift towards accrual accounting;

viii. Heads of Service/Controlling Officers/Heads of Department shall set up a special committee to investigate issues pertaining to fraud, wastage and extravagance spending of public fund. Stern action such as disciplinary and/or surcharge shall be taken against officers who are found to be negligent or fail to discharge their duties without reasonable justification resulting in losses to the Government; and

ix. the Controlling Officers of various Ministries/ Departments shall demonstrate high commitment by taking prompt action on matters raised by the Auditor General. The Controlling Officers must provide a factual report promptly to the Audit Follow-up Division to update its status on the AG Dashboard of the National Audit Department.

c. In addition to fulfilling the legal requirements, I hope this report will form a basis for mitigating the weaknesses, strengthening efforts and enhancing accountability and integrity. This report is also important for the Government to increase productivity, creativity and innovation in public service delivery and creating a speedy, accurate and integrity work culture. The Auditor General's Report indirectly contributes towards the achievement of **the Government Transformation Programme 2.0 in fighting corruption under the National Key Results Areas (NKRA).**

National Audit Department
Putrajaya
19 May 2017

SECTION 3

SYNOPSIS

AUDITOR GENERAL'S REPORT FOR THE YEAR 2016

MANAGEMENT OF THE FEDERAL GOVERNMENT AND GOVERNMENT AGENCIES' COMPANIES

**NATIONAL AUDIT DEPARTMENT
MALAYSIA**

PREFACE

PREFACE

1. The National Audit Department has implemented the Transformation Programme of National Audit Department which was launched since 2014. The new structure focuses on the audit programmes rather than by types of account or agencies, as was the case previously with the aim of enhancing the professionalism and skills of auditors and to improve the quality of auditing. In line with the aspirations of the department, the Audit Governance Sector was officially established on 19 September 2016 to oversee good governance in government-linked companies (GLCs).

2. In recent years, the issues of accountability, transparency and integrity among GLCs in relation to good governance in these companies have been much discussed. The failure of good governance would expose an entity to risks on abuse of power, embezzlement and corruption. Therefore, with the establishment of the Audit Governance Sector, the Auditor General's Report on the management of GLCs is issued separately starting from this year.

3. Article 106 and 107 of the Federal Constitution and the Audit Act 1957 require the Auditor General to audit financial statements, financial management, activities of

Government ministries/departments/agencies as well as management of GLCs and to submit the reports to His Majesty, Seri Paduka Baginda Yang di-Pertuan Agong and obtain His assent before tabling the reports in Parliament. Section 5(1)(d) of the Audit Act 1957 empowers the Auditor General to audit a company registered under the Companies Act 1965 (Amendment 2016), which received grants/loans from the Federal or State Government and Government agencies. This includes a company with more than 50% of its paid-up capital held by the Government or Government agencies. The audit can only be undertaken on condition that His Majesty, Seri Paduka Baginda Yang di-Pertuan Agong so specifies by order under Article 106(2) of the Federal Constitution. As such, Audit (Accounts Companies) Order 2013 was gazetted in October 2013 to replace those issued in 2004 and 2009.

4. This report contains audit findings on the management of 7 GLCs. Audit observations have been submitted to the heads of these companies. The management of these companies have also been informed of the issues raised during the exit conference. In addition, confirmatory letters were received before the report was finalised. This report highlights significant audit findings on weaknesses detected. In order to address these weaknesses and to avoid repetition of the same, I have recommended that action be taken by these GLCs.

5. I would like to express my appreciation to all officers of the GLCs concerned for the cooperation rendered to my staff during the audit. I also wish to express my thanks to officers of the National Audit Department who have worked diligently and gave their full commitment to complete this report.

(TAN SRI DR. MADINAH BINTI MOHAMAD)
Auditor General
Malaysia

Putrajaya
18 May 2017

SYNOPSIS

SYNOPSIS

1. INTRODUCTION

Audit findings on the seven subsidiary companies of Federal ministries and Statutory Bodies are summarised as follows:

2. MINISTRY OF AGRICULTURE AND AGRO-BASED INDUSTRY MALAYSIA

- Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN Nasional)

2.1. TEKUN Nasional is a Company Limited by Guarantee and was incorporated on 9 November 1998 under the Companies Act 1965. TEKUN Nasional was placed under the care of the Ministry of Entrepreneurial and Cooperative Development and was subsequently, placed under the supervision of the Ministry of Agriculture and Agro-Based Industry Malaysia (MOA) effective 1 April 2009. The incorporation objectives of TEKUN Nasional primarily are to provide soft and speedy financing facilities, entrepreneurship information, business opportunities, guidance and support to entrepreneurs and to encourage savings as well as establishing networks amongst entrepreneurs. The main activity of TEKUN Nasional is to provide financing facilities to existing and new start-up entrepreneurs to develop and expand their businesses. The TEKUN Nasional programmes were implemented across

222 Parliamentary Constituencies with the support of 196 offices nationwide.

2.2. TEKUN Nasional received loans and grants from the Federal Government to implement its programmes. From year 1998 to June 2016, TEKUN Nasional received loan financing from the Ministry of Finance amounting to RM1.86 billion, whereas RM670 million grants were received from MOA for the purpose of Economic Stimulus Package, flood victims aid and Indian Community Entrepreneurial Development Schemes. Other than that, TEKUN Nasional has implemented special programmes utilising funds from the State Government/agencies amounting to RM157.77 million. As at 30 June 2016, TEKUN Nasional has disbursed financing to 473,982 entrepreneurs totalling RM4.29 billion. A service charge of 4% was imposed on financing amounts. Financing repayments collected from entrepreneurs amounted to RM2.71 billion (63.2%) for the same period.

2.3. The Audit carried out from May to October 2016 and February 2017 revealed that TEKUN Nasional has managed to increase its total financing from RM2.69 billion to RM4.29 billion for 473,982 entrepreneurs within the period of 18 years. However, the financial performance of TEKUN Nasional for the year 2013 to 2015 was less than satisfactory due to massive debt to the Government and a huge amount of bad debts was written off. Accumulated losses at the end of the year 2015 amounted to RM209.28 million. Management of activities was in accordance with the objective of incorporation but not properly planned. Corporate governance practices were also less than satisfactory. Audit findings which should be given attention by TEKUN Nasional are summarised as follows:

i. comprehensive studies were not conducted to evaluate the effectiveness of fund utilisation by entrepreneurs to start-up or expand their businesses;

ii. the performance of financing repayment compared to target was only between 78.1% and 96.9%. As at 30 June 2016, Non Performing Finance stood at 38% (RM769.34 million) from the total repayment arrears of RM2.02 billion. Total bad debts written off were RM410.61 million (9.6%) from total financing and collected repayments were only RM74.63 million (18.2%);

iii. targeted timeframe and outcome for six Entrepreneur Development Special Programmes were not set. TEKUN Credit Guarantee Scheme failed to achieve its objective due to lack of response from suppliers. Joint Programme Committee for Mentor Mentee Programme was not formed and Programme Monthly Reports were not submitted by the three mentor companies involved;

iv. failure in the implementation of TEKUN Entrepreneurship Portal, TEKUN Entrepreneur Community Card and Cyber Mall resulted in losses of RM872,035; and

v. members of the Audit, Integrity and Risk Committee did not have accounting background. Besides that, corporate governance practices on financial management were not managed properly.

2.4. To improve the performance management of the company, TEKUN Nasional is recommended to take the following actions:

2.4.1. conduct a comprehensive study to evaluate the effectiveness of fund utilisation by entrepreneurs and reasons for the failure of their businesses;

2.4.2. conduct a feasibility study before execution of a programme and to monitor the programmes to ensure objectives of these programmes are achieved as well as timely repayment of financing; and

2.4.3. to practise good corporate governance from time to time particularly on the internal controls on receivable and payable including payment to unqualified individuals.

3. MINISTRY OF SCIENCE, TECHNOLOGY AND INNOVATION

- CyberSecurity Malaysia

3.1. CyberSecurity Malaysia (CSM) started as an unit known as the Malaysian Computer Emergency Response Team (MyCERT) under MIMOS Berhad in 1997.

Subsequently in 2001, the National ICT Security and Emergency Response Center (NISER) was established as a department under MIMOS Berhad and MyCERT was positioned under NISER. On 30 March 2007, NISER was rebranded to CSM and registered as a Company Limited by Guarantee (CLBG) under the Ministry of Science, Technology and Innovation (MOSTI). CSM currently operates from Seri Kembangan, Selangor.

3.2. Besides providing cyber security services, CSM is also mandated to support and provide technical assistance and training services for the National Cyber Crisis Management as stated in the Policy and Mechanism of National Cyber Crisis Management by the National Security Council. For the implementation of the main activities of the company, CSM received grants from MOSTI and other Government agencies to cover its expenses as it is a non-profit oriented company. For the year 2013 until September 2016, CSM has received operating grants (RM72.21 million) and development grants of RM295.24 million respectively. For the same period, CSM has successfully completed 38,844 cases related to computer security.

3.3. The audit carried out from May to October 2016 revealed that the overall financial performance of CSM for the year 2013 to 2015 was satisfactory. The current ratio is good. The company's cash flow showed a positive trend for the three consecutive years. However, CSM should be more proactive in generating revenue from the company's activities and not depend on grants from Government.

Other than that, the management of activities was in accordance with the objectives of incorporation and the corporate governance practices of CSM were satisfactory. The Board of Directors and management have ensured the establishment of strategic goals and Key Performance Indicators (KPI) targets for 2013 to 2015 to meet the vision and mission of the company as well as being relevant and consistent with its direction and mandate. However, several audit findings that need to be given attention by CSM are summarised as follows:

i. related expenses for three out of 10 projects under the 10th Malaysian Plan (MP) namely Project II, III and V exceeded the total allocation of RM727,402;

ii. development grants for projects under the 10th MP and 11th MP totalling RM3.76 million were used for operating expenditure, such as entertainment expenditure claims, secretary week workshops and others. The usage of development grants for operating expenditure is not allowed except allocation for operating expenditure under the Shared Service Fee (SSF);

iii. facilities were not available in the Cyber999 Customer Relation Management (CRM) system for customers to provide feedback on the quality of Cyber999 Help Centre services;

iv. awareness study on the dangers and threats of Internet surfing was not carried out by CSM to the participants attending the Cyber Safe Awareness Talk (CSAT);

v. charter for Board Members were not prepared, whereby the only source of reference is the company’s Memorandum & Article of Association (M&A);

vi. financial management audit was not carried out for the year 2013 and 2016; and

vii. annual salary increment was only approved by the Chief Executive Officer and Chief Operating Officer without the approval of the Board of Directors.

3.4. To ensure the implementation of activities are carried out efficiently and in an orderly manner, CSM is recommended to take the following actions:

3.4.1. ensure development grants are not utilised for operating expenditure except for expenses allowed under the Shared Service Fee (SSF). In the event of insufficient allocation, CSM needs to apply for additional operating grants from MOSTI;

3.4.2. improve the current Cyber999 CRM system by allowing customer satisfaction evaluation to assess the quality of complaint services; and

3.4.3. activities and training schemes offered by CSM should be promoted intensively for the benefit of the public.

4. MALAYSIA HANDICRAFT DEVELOPMENT CORPORATION

- Syarikat Pemasaran Karyaneka Sdn. Bhd.

4.1. Syarikat Pemasaran Karyaneka Sdn. Bhd. (KARYANEKA), a wholly owned company of the Malaysia Handicraft Development Corporation (KRAFTANGAN) was established on 4 October 1982 under the Companies Act 1965. The company has an authorised and paid-up capital amounting to RM10 million and RM7.06 million respectively. KARYANEKA was established to market Malaysian craft products to local and international markets through professional and systematic marketing system as well as promoting local craft products through various effective channels. KARYANEKA's vision is to be the catalyst in the marketing and promoting of quality crafts as well as meeting the market needs while the mission is to market and promote the usage of Malaysian crafts at domestic and international levels. As at June 2016, KARYANEKA owns 9 outlets in Kuala Lumpur, 2 outlets in Kuala Lumpur International Airport (KLIA), KLIA2, Kota Bharu, Pulau Pinang and 3 outlets in Pulau Langkawi, Kedah.

4.2. The audit carried out in May and June 2016 revealed that overall financial performance of KARYANEKA for the year 2013 to 2015 was satisfactory. Although profit before tax has declined for the year 2014 and 2015, KARYANEKA recorded a retained earnings of RM1.09 million and the company's cash position at the end of the year was good. The activities were managed in accordance with the objectives of its incorporation. However, there were some weaknesses that need to be highlighted. In addition, the corporate governance practices were less than satisfactory. Audit findings are summarised as follows:

i. sales in retail market, corporate market and other channels were less satisfactory as the income and gross profit did not meet the target. In addition, only 6 outlets managed to generate profit while the other 11 outlets suffered losses, 6 outlets were closed in the year 2014 and 2 others in 2015;

ii. slow moving and unsold products of each outlet were high amounting to RM338,144 of which 1Malaysia clothing products recorded the highest amount of RM125,807 (37.2%);

iii. the management of the Central Store and Administration Store was less than satisfactory. Among others, high-value stocks were kept in unlocked staff working area since the Central Store has limited space; open store space and stocks were not kept properly. Besides that, the exhibition and promotion materials were not properly kept in the Administration Store resulting in some of the stocks being placed at the staff working area and passage leading to the emergency door;

iv. closed-circuit cameras were not installed in outlets at KLIA CP21, Straits Quay, Penang, Langkawi Craft Complex, Airport Kota Bharu and Langkawi

International Airport. In addition, the existing closed-circuit cameras were insufficient to monitor the overall shopping area in Block B and C, Kuala Lumpur Craft Complex; and

v. appointment of the Chairman and the composition of Board of Directors were not in line with the best practices set out in the Green Book as it consists of top management from KRAFTANGAN and there were no independent directors.

4.3. To improve the performance of the company's management, KARYANEKA is recommended to take the following actions:

4.3.1. review the Business Strategies Plan and seek prior approval from the Board of Directors; and

4.3.2. appoint independent directors from private/ corporate sector as Board Members who are qualified and experienced in the field to contribute ideas towards the improvement of the company's performance.

5. CENTRAL TERENGGANU DEVELOPMENT AUTHORITY

- KETENGAH Holding Sdn. Bhd.

5.1. KETENGAH Holding Sdn. Bhd. (KHSB) is a wholly owned company of Central Terengganu Development Authority (KETENGAH). KHSB was incorporated on 9 July 2003 under the Companies Act 1965 with an authorised capital of RM100 million and paid-up capital of RM37.29 million. KHSB acts as a catalyst in developing KETENGAH region on plantation, manufacturing, quarrying, business services, education and real estate activities. The main activities of KHSB are investment holding and providing management services to its 7 subsidiaries and 4 associates. KHSB is also involved in the development of housing projects, the management of the Rural Transformation Center (RTC) and grocery stores (KH Shoppe). KHSB currently operates from the Bangunan Perpustakaan, Bandar Al Muktafi Billah Shah, Dungun, Terengganu.

5.2. The audit carried out in January and February 2016 revealed that the overall financial performance of KHSB for the year 2013 to 2015 was satisfactory whereby the company recorded profit before tax for 3 consecutive years. The accumulated profit of the company also showed a positive trend from the year 2013 to 2015. The management of its activities was in accordance with the objectives of incorporation but were not managed properly, while corporate governance practices were satisfactory. Audit findings that should be addressed by KHSB are summarised as follows:

i. the dividend income has exceeded 95% of its target and recorded a dividend income of 102.9% and 109.7% respectively. However, 5 of its 7 subsidiaries with 100% shares owned by KHSB were incapable of paying dividends;

ii. one of the 7 subsidiaries recorded losses before tax for the year 2015;

iii. as at 31 December 2015, 7 subsidiaries owed KHSB an amount of RM6.89 million with the period of arrears between one and 120 months;

iv. KHSB managed to settle housing project returns on 67 lots of land amounting to RM118,731 out of RM1.09 million owed to KETENGAH;

v. Standard Operating Procedures for the management of facilities in RTC Terengganu were not prepared and the rate of rental charged was not approved by KETENGAH or KHSB Board of Directors;

vi. Business model for KH Shoppe store was not viable and contributed to losses for the year 2014 and 2015;

vii. existing corporate strategy and business plan did not contain the company's visions and the implementation strategy; and

viii. Finance and Accounting Procedures were incomplete as it did not include the Credit Management Policy. Whereas the Procurement Procedures for Supplies, Services and Works were not prepared in detail.

5.3. To improve the performance management of the Company, KHSB is recommended to take the following actions:

5.3.1. review the subsidiaries business strategy plans in ensuring these companies are able to repay debts owed to the company and the parent company;

5.3.2. ensure property development agreements are prepared with clear terms and conditions for the benefit of KETENGAH and KHSB; and

5.3.3. strengthen the corporate governance practices to improve the company's performance.

6. CENTRAL TERENGGANU DEVELOPMENT AUTHORITY

- KETENGAH Properties Sdn. Bhd.

6.1. KETENGAH Properties Sdn. Bhd. (KPROP) was incorporated on 16 August 1985 under the Companies Act 1965. It was formally known as KESCO Bina Sdn. Bhd. and renamed to KPROP in the year 2008. KPROP is a wholly owned company of KETENGAH Holdings Sdn. Bhd. (KHSB) while KHSB is wholly owned by Central Terengganu Development Authority. The authorised and paid up capital of KPROP is RM1 million and RM450,002 respectively. KPROP operates in Bangunan Perpustakaan, Bandar Al Muktafi Billah Shah, 23400 Dungun, Terengganu Darul Iman. As at February 2016, KPROP manages the housing development projects of KHSB, Bukit Besi Golf Club and Kenyir Water Park.

6.2. The audit carried out in February 2016 generally revealed that financial performance of KPROP for the year 2013 to 2015 was satisfactory and recorded a profit before tax for three years consecutively. This has contributed to the positive impact on the financial ratios whereas the positive cash flow balances indicated that the company was capable of sustaining its operations. Although the activities were properly managed and in accordance with the objective of incorporation, there were several weaknesses in the implementation of the activities. Corporate governance practices were less than satisfactory and needs improvement. The Audit findings on the management of activities and corporate governance practices are summarised as follows:

i. management agreements between KPROP and KHSB for 7 housing development projects were not prepared resulting in unclear disbursement of profit and interim payment to contractors. Besides that, the agreement to surrender the management rights for Kenyir Water Park was also not provided even though the park has generated a revenue of RM1.08 million and incurred expenses amounting to RM758,921 which comprised staff salaries, maintenance, stocks for cafeteria and other expenses during the 9 months operational;

ii. Certificate of Completion and Compliance (CCC) was not issued for 9 houses at Bandar KETENGAH Jaya and 19 houses at Bandar Al Muktafi Billah Shah which were completed on 28 November 2011 and 19 October 2014 respectively. These houses were already sold and occupied. In addition, CCC was not issued for Kenyir Water Park even though it has started operation on 31 May 2015;

iii. Board Members were not represented by experts from the industry. Since the Audit Committee was not established, the Internal Audit Unit only reports the audit findings to the Board of Directors of KHSB and KPROP. Audit Committee was not formed due to the size and staffing of the company which was relatively small;

iv. a specific Strategic Business Plan was not prepared for each activity. KPROP adopted the business plan from KHSB which relates to property development; and

v. Accounting and Financial Procedures were incomplete and not updated. The absence of a credit management policy has resulted in debt arrears amounting to RM1.65 million as at December 2015.

6.3. Audit recommends that KPROP considers the following actions to improve the performance of the company:

6.3.1. ensure no delay in issuing the CCC for the housing development projects and the Kenyir Water Park so as to deter any claims under unforeseen circumstances;

6.3.2. ensure a written agreement is prepared upon surrendering the management rights of all projects managed by KPROP in order to protect the company's interest; and

6.3.3. provide a Strategic Business Plan for each activity as a guideline to achieve management goals and to complete the financial Standard Operating Procedures.

7. ISKANDAR REGION DEVELOPMENT AUTHORITY

- Prisma Harta Sdn. Bhd.

7.1. Prisma Harta Sdn. Bhd. (PHSB) is a wholly owned company of Iskandar Region Development Authority (IRDA) which was established on 8 Disember 2009 under the Companies Act 1965. The authorised and paid up capital is RM10 million and RM1 million respectively. PHSB is a Special Purpose Vehicle to assist IRDA in the operation and maintenance of Rumah Iskandar Malaysia (RIM) Project which is situated at Bandar Nusajaya, Mukim Pulai, Johor Bahru. PHSB started its operations at Nusajaya, Johor in January 2012 with rental of RIM houses in April 2012 and to ensure a clean and safe environment to the tenants. The main activities of PHSB are managing the rental of 1,500 RIM houses at an affordable rate to the qualified low and middle income groups as well as the rental of 13 commercial units. As at 15 Mac 2016, a total of 1,077 housing units and 8 commercial units have been rented out to the public and businesses.

7.2. The audit carried out from March to September 2016 revealed that the overall financial performance of PHSB was satisfactory where the company continuously earned profit before/after taxation in year 2013 to 2015. The accumulated profit of the company also showed a positive trend for the 3 years. In addition, the corporate governance practices of PHSB were satisfactory. Although PHSB has properly managed the rented of RIM houses and commercial units in line with its established objectives in year 2013 to 2015, there were 2 issues which requires PHSB's attention as follows:

i. targets on rental for houses and commercial units were not achieved and this has negative impact on the execution of targeted rental income and also on the loss of income. For these 3 years, the rental of housing units recorded between 70.5% and 80.5% only whereas the rental of commercial units was between 61.5% and 84.6%. The rental income for housing units in year 2013 was at the lowest of 72.8%. The rental income for commercial units did not achieve the target in year 2014 and 2015 with the lowest achievement in year 2015 of 82.6%. The loss of rental income was estimated at RM3.52 million; and

ii. based on the PHSB Rental Debtors Aging Report as at 31 December 2015, the arrears of housing and commercial rental for 3 months and above were high which was RM762,580 (64.1%) compared to the total arrears in rental debtors amounting to RM1.19 million.

7.3. To enhance the performance management of the company, PHSB is recommended to take the following actions:

7.3.1. ensure the achievement of rental units and rental income is in line with the target set and reduce the arrears of rental debtors in order to continuously protect the interest of PHSB; and

7.3.2. review the rental rates for commercial units which is set between RM3.08 and RM8.08 per square feet. This is because the average rental rate obtained from the Valuation and Property Services Department Johor Bahru on 12 January 2017 for three surrounding areas of RIM namely Taman Nusa Sentral, Taman Nusa Idaman and Taman Nusantara was only RM2.27 per square feet.

8. UNIVERSITY MALAYSIA OF KELANTAN

- UMK Business Ventures Sdn. Bhd.

8.1. UKSB Ventures Sdn. Bhd. (UKSB) was incorporated on 10 Jun 2010 under the Companies Act 1965 and was renamed to UMK Business Ventures Sdn. Bhd. (UMKBV) on 5 September 2012. UMKBV is a wholly owned company of University Malaysia of Kelantan (UMK). The authorised and paid up capital of UMKBV is RM5 million and RM1.5 million respectively. The incorporation objective of UMKBV is as a business wing of UMK to generate income by providing services in the field of research, managing events/seminars/courses/workshops and any other businesses. The main activity of UMKBV is rental of student residences in Kampus Kota, Pengkalan Chepa, Kelantan to UMK. UMKBV operates from Wisma TCH, Lot 1, Jalan Pengkalan Chepa, Kota Bharu which is rented from TCH Vision Trading Corporation Sdn. Bhd.

8.2. The audit carried out from May to October 2016 generally revealed that financial performance of UMKBV for the year 2015 was satisfactory compared to the year 2013 and 2014. UMKBV’s retained earnings for the year 2015 increased even though the profit before tax and the cash balance declined in the year 2015 compared to the year 2014. The corporate governance practices were also satisfactory. However, UMKBV should give due attention in preparing the Strategic Plan and a comprehensive Standard Operating Procedures. The management of activities was implemented in line with its incorporation objective. However, there were 2 weaknesses observed as follows:

i. the procurement of student residences from a private company resulted in losses for UMKBV. This was because only a small portion of the rental payment (RM3.85 million) had been considered in the purchase price compared to the total rental paid amounting to RM30.53 million. Clause 5.3 of the tenancy agreement stated that monthly rental paid can be considered as a part payment of the purchase. Besides that, the building was sold to UMKBV but the rental deposit amounting to RM2.49 million has yet to be refunded by the initial owner; and

ii. unoccupied rented office in Wisma TCH resulted in wastage of fund amounting to RM117,000 due to lack of proper planning by UMK.

8.3. In order to improve the performance of the company, it is recommended that UMKBV draws up a long term strategic plan focusing on the company's incorporation objective other than rental of student residences. This is to ensure UMKBV does not rely heavily on the rental activity to generate income.

CONCLUSION

CONCLUSION

The audit conducted showed that there are several weaknesses that need to be addressed immediately to ensure that the management of activities by companies under the Federal Government and Statutory Bodies are in accordance with their stipulated objectives. Some companies have taken corrective action after the weaknesses were highlighted. Nevertheless, corrective action should be continuous. As auditing is performed based on sampling and on defined scope and a system of check and balance should be established by the head of companies to ensure that a holistic evaluation is carried out. This measure is crucial to ensure that company activities generate the best value for money.

In relation to this, the Audit Committee in collaboration with the Internal Audit Unit for each company should play an important role in assessing the financial performance and corporate governance practices as well as to determine the extent of efficient and effective implementation of activities in achieving the company's stipulated objectives.

Other than that, ministries/agencies/companies who are the main shareholders/guarantors to a company should also monitor its activity on a scheduled basis to ensure the company's competitiveness and profitability to facilitate dividend payment and repayment of loans to the

Government or Government agencies while establishing good governance.

Apart from fulfilling legal requirements, I hope this Report will provide a basis to rectify all weaknesses, strengthen improvement efforts and enhance accountability and integrity. This Report is also vital in the Government's effort to create a work culture which is speedy, accurate and of integrity. Indirectly, this contributes towards the achievement of the Government Transformation Programme 2.0 for the initiatives under the National Key Result Areas (NKRA) to fight corruption as well as to fulfil the needs, interests and aspirations of all Malaysians under the slogan “People First, Performance Now”.

National Audit Department
Putrajaya

18 May 2017