AUDITOR GENERAL’S REPORT 2015

ACTIVITIES OF THE FEDERAL MINISTRIES/DEPARTMENTS AND MANAGEMENT OF THE GOVERNMENT COMPANIES

SERIES 2

NATIONAL AUDIT DEPARTMENT MALAYSIA
SYNOPSIS

AUDITOR GENERAL’S REPORT
FOR THE YEAR 2015 SERIES 2

ACTIVITIES OF THE FEDERAL
MINISTRIES/DEPARTMENTS
AND MANAGEMENT OF
THE GOVERNMENT COMPANIES

NATIONAL AUDIT DEPARTMENT
MALAYSIA
<table>
<thead>
<tr>
<th>CONTENTS</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PREFACE</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>SYNOPSIS</strong></td>
<td>7</td>
</tr>
<tr>
<td><strong>PART 1</strong></td>
<td></td>
</tr>
<tr>
<td>IMPLEMENTATION OF ACTIVITIES BY THE FEDERAL</td>
<td></td>
</tr>
<tr>
<td>MINISTRIES/DEPARTMENTS</td>
<td></td>
</tr>
<tr>
<td><strong>PRIME MINISTER’S OFFICE</strong></td>
<td></td>
</tr>
<tr>
<td>1. Management Of Delayed/Sick Projects</td>
<td>9</td>
</tr>
<tr>
<td>2. Management Of Langkawi Tourism Development</td>
<td></td>
</tr>
<tr>
<td>Economic Planning Unit</td>
<td></td>
</tr>
<tr>
<td>2. Management Of Langkawi Tourism Development</td>
<td>12</td>
</tr>
<tr>
<td>3. Management Of Restrictions On Travel Abroad</td>
<td>14</td>
</tr>
<tr>
<td><strong>MINISTRY OF FINANCE</strong></td>
<td></td>
</tr>
<tr>
<td>Inland Revenue Board Malaysia</td>
<td></td>
</tr>
<tr>
<td>3. Management Of Restrictions On Travel Abroad</td>
<td>14</td>
</tr>
<tr>
<td><strong>Royal Malaysian Customs Department</strong></td>
<td></td>
</tr>
<tr>
<td>4. Special Refund Under Section 190, Goods and Service Tax Act 2014</td>
<td>18</td>
</tr>
<tr>
<td><strong>MINISTRY OF PLANTATION INDUSTRIES AND COMMODITIES</strong></td>
<td></td>
</tr>
<tr>
<td>5. Management Of Cooking Oil Stabilisation Scheme</td>
<td>20</td>
</tr>
<tr>
<td>Ministry</td>
<td>Department/Sub-Department</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Ministry of Agriculture and Agro-Based</td>
<td>Department of Veterinary Services Malaysia</td>
</tr>
<tr>
<td>Industry</td>
<td></td>
</tr>
<tr>
<td></td>
<td>In Peninsular Malaysia</td>
</tr>
<tr>
<td>Ministry of Natural Resources and</td>
<td>Forestry Department Peninsular Malaysia</td>
</tr>
<tr>
<td>Environment</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mineral And Geoscience Department Malaysia</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Transport Malaysia</td>
<td>Marine Department Malaysia</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Energy, Green Technology</td>
<td>Sewerage Services Department</td>
</tr>
<tr>
<td>and Water</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Federal Territories</td>
<td>Kuala Lumpur City Hall</td>
</tr>
</tbody>
</table>
MINISTRY OF EDUCATION MALAYSIA
13. Management Of Special Education 43
14. Primary School Construction Projects 45
15. Management Of Daily Residential Schools 47

MINISTRY OF HIGHER EDUCATION
Department Of Community College Education
16. Procurement Of Teaching And Learning Equipment 51

MINISTRY OF HEALTH MALAYSIA
17. Management Of Medicine Supplies In Health Clinics 53

MINISTRY OF DEFENCE
19. Management Of Fresh Food Supplies And The Privatisation Of Malaysian Army Catering Services 61
20. Construction Of Service Technical Center (STC) For Maintenance And Amelioration On Sukhoi SU-30MKM Aircraft At TUDM Gong Kedak, Terengganu Air Base 64

MINISTRY OF HOME AFFAIRS
21. Management Of Film Censorship Control And Enforcement 66

Malaysian Prison Department
22. Procurement Management 69

MINISTRY OF HOME AFFAIRS/PUBLIC WORKS DEPARTMENT
23. Construction And Completion Of The Police Training Centre Project In Mukim Pelangai, Bentong, Pahang 72
# PART II

## MANAGEMENT OF GOVERNMENT COMPANIES

24. Financial Analysis And Monitoring Of Government Link Companies - Special Purpose Vehicles Companies

25. Management Of Human Resources Development Berhad

## CONCLUSION
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 his 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 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 is in accordance with relevant financial laws and regulations;

1.3. **Performance Audit** – to evaluate whether the Federal Government activities have been carried out efficiently and economically 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. My report on the implementation of activities of the Federal Ministries/Departments and the management of Government Companies for the year 2015 Series 2 consists of 2 parts as follows:

   **Part I** : Implementation of Activities of the Federal Ministries/Departments

   **Part II** : Management of Federal Government Companies

3. Section 6(d) of the Audit Act 1957 requires the Auditor General to carry out audit to evaluate whether Government activities have been manage efficiently, economically and in accordance with their stated objectives. The audit includes various activities such as procurement, construction, infrastructure, maintenance, and revenue management. This report contains observations from the audit of 23 programmes/activities/projects of 19 Federal Ministries/Departments, analysis on financial performance and monitoring of companies under Minister of Finance Incorporated and management of Government Company. Generally, there were weaknesses such as works/supplies/services not accordance to specifications, of poor quality and unsuitable; unreasonable delays; improper payment; wastages; weaknesses in management of Government’s
assets, security and weaknesses in revenue collections are observed. These weaknesses resulted from negligence in complying with the Government’s rules/procedures; not meticulous in planning programmes/activities/projects, defining scopes and tender specifications; lack of frequent and close supervision on the works of contractors/consultants; poor project management skills; less emphasize on the outcome/impact of programmes/activities/projects and insufficient funds for procurement and maintenance of assets.

4. As in previous years, Heads of Department had been informed earlier and confirmed all the matters reported in this report. Furthermore, Exit Conferences were held with Secretary General of Ministry/Heads of Department/Chief Executive Officer of the Government Company and also attended by representatives from the Attorney General”s Chambers, Public Service Department, Malaysian Anti-Corruption Commission, Ministry of Finance and related contractors to rectify the issues highlighted. Thus, I have proposed 68 recommendations for corrective and improvement actions to be taken by Secretary General of Ministry/Heads of Department/Chief Executive Officer to rectify the identified weaknesses of the programmes/activities/projects.

5. The Auditor General's Dashboard (AGD) implemented since 31st May 2013 has achieved its objectives of 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 corrective actions taken by auditees. This mechanism has successfully assisted Ministries/Department/Companies to respond promptly on issues highlighted. It demonstrates commitments and concerns of Ministries/Departments/Government Companies to rectify issues reported in the Auditor General's Report and disseminate information and current status of audit issues to the public.

6. I would like to express my appreciation to all the officers in the various Federal Ministries/Departments/Government Companies 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 HAJI AMBRIN BIN BUANG)
Auditor General of Malaysia

Putrajaya
27th October 2016
PART I - IMPLEMENTATION OF ACTIVITIES BY THE FEDERAL MINISTRIES/DEPARTMENTS

PRIME MINISTER’S DEPARTMENT

1. Management Of Delayed/Sick Projects

a. The Development Division under the Prime Minister's Department (PMD) is responsible for monitoring the implementation of all development projects (physical and non-physical) which have been approved for various Departments/Agencies by the Ministry. The Division plans, coordinates and monitors the allocation and expenditure as well as project implementation in accordance to the stipulated rules and procedures. In addition, the Division is also responsible for giving advice regarding issues with implementation on development projects to various Departments/Agencies. To ensure the progress of these projects is in line with and ahead of schedule, numerous initiatives have been prepared to achieve its goals. Any issues and problems raised pertaining to the project have been highlighted periodically towards PMD's management through its Development Action Committee forum. In addition, various strategies have been implemented which includes the production of Fortnightly Notes, Strategic Alliance, Roundtable Meetings with Central Agencies as
well as site visits on all delayed and problematic projects. The Ministry has distributed development funds for project implementation purposes to 22 Departments/Agencies under the Ninth (RMKe-9) and Tenth Malaysia Plan (RMKe-10). The allocations were distributed according to yearly project implementation and in addition, there were projects that have been implemented through the Private Finance Initiative (PFI) scheme.

b. Audit performed between September 2015 to April 2016 revealed that the monitoring of delayed/sick projects were satisfactory especially in terms of the frequency on project site visits, termination against original contractors and the appointment of saviour contractors. As a result, 6 delayed/sick projects have been successfully completed, another 2 projects were under construction and the remaining 2 projects were still in the re-tendering process. However, in terms of managing or tackling any delayed/sick projects, there were several planning and implementation issues that need improvements as follows:

i. 3 out of 6 delayed projects were imposed with Liquidated And Ascertain Damages (LAD) amounting to RM1.55 million;

ii. weaknesses in selection criteria of contractors i.e. less attention given on contractor’s experience and capability which affected projects implementation performance;
iii. delay in project submission by Public Works Department (PWD) to the client/user agency causing Defect Liability Periods to decrease by 150 to 584 days; and

iv. delay in the issuance of Notice of Termination of Employment Contract for 5 projects between 25 to 66 days from the date of Notice For The Purpose of Termination.

c. In order to overcome the weaknesses highlighted and preventing them from recurring in the future as well as the Government gets best value for money, it is recommended for all parties involved to take the following actions:

i. PWD/Ministry Of Finance Malaysia (MOF) must prioritise on its qualification and capability criteria upon contractors appointment in order to achieve the project objectives within the stipulated time;

ii. PWD/Consultant/Client must ensure that any preliminary works/on-site problems must be resolved prior to the issuance of Letter Of Acceptance (LoA) to avoid delays in project completion; and

iii. PWD must ensure that project deliveries are made within the stipulated time for full utilisation. Whereas, the Final Certificate should be issued within 3 months after the expiration of Defect Liability Period or after the issuance of Certificate of Making Good Defects.
Economic Planning Unit
2. Management Of Langkawi Tourism Development Programme

a. Since November 2009, there have been discussions about Langkawi tourism development by the Cabinet. The Ministry of Tourism and Culture Malaysia as well as the Langkawi Development Authority (LADA) were among Ministries/Agencies which have been instructed to rejuvenate the island’s tourism industry in collaboration with other Ministries/Agencies such as the Ministry of Finance Malaysia and Economic Planning Unit (EPU). In October 2010, EPU's top management agreed to study a formulation of Langkawi Tourism Blueprint [Blueprint Pelancongan Langkawi (BPL)] with the purpose of rebuilding Langkawi’s tourism industry. The development of BPL has been implemented for the period 2011 to 2015 with the aim of achieving its aspiration by making Langkawi as the 10th islands and eco-tourism destination in the world by year 2015. The implementation of BPL is expected to increase Langkawi’s tourism revenue by two-fold in year 2015 amounting to RM3.8 billion and creating 4,200 new job opportunities. BPL has outlined 14 key initiatives aiming at boosting the tourism industry in Langkawi. As a result, the Delivery Management Office (DMO) by LADA has been established to coordinate and monitor the implementation of 14 BPL key initiatives among Ministries/Agencies involved.
b. Audit conducted between December 2014 to December 2015 revealed that the overall performance for this project is satisfactory whereby 18 (75%) out of 24 projects were completed within BPL implementation period. In addition, continuous monitoring on projects/programmes has ensured that it was well managed and organised to achieve its desired goals. However, to increase the efficiency of the implementation, there were some aspects that could be improved as follows:

i. 6 (25%) out of 24 projects were not completed within BPL stipulated period (2011-2015);

ii. scheduled preventive maintenance for LED (Light Emitting Diode) Lighting and Solar Projects from Taman Lagenda to Dataran Lang were not carried out which cause damages on sculpture and solar lights were not properly functioned;

iii. the incentive/sponsorship guidelines for MICE Group (Meeting, Incentives, Conferencing and Exhibitions) were not clear in relation to types of incentive/sponsorship resulted in uncontrolled and unnecessarily spending; and

iv. there was no Service Level Agreement (SLA) established between LADA and Consulting Company to ensure that consultants have carried out their roles and responsibilities effectively.

c. In order to overcome the weaknesses highlighted and preventing them from recurring in the future, it is
recommended that EPU and LADA consider the following:

i. all LADA planned projects should be implemented and completed in accordance with BPL objectives;

ii. SLA terms should be included in all ICT procurement contracts to safeguard Government’s interest;

iii. scheduled maintenance on sculptures and solar lights should be carried to ensure that they are in good condition and properly function; and

iv. comprehensive guideline for programmes should be established to improve efficiency and transparency.

MINISTRY OF FINANCE MALAYSIA

Inland Revenue Board Malaysia
3. Management Of Restrictions On Travel Abroad

a. Under Section 104 of the Income Tax Act 1967 and Section 22 of the Real Property Gains Tax Act 1976, individual or company directors would be barred from leaving the country if they failed to settle their taxes. Director General of Inland Revenue (DGIR) can issue restriction certificates to prevent a person from leaving the country by sending the certificate to the last known address of the taxpayer personally or by a registered post. Tax defaulters must settle the fully amount of taxes owed as stated on the certificates issued before they can apply for the travel restrictions to be lifted. If
the tax defaulters failed to settle the full amount, they can still apply for a provisional or temporary release in accordance with the prescribed conditions. Temporary release letter will be issued to the taxpayer who contains an approved limited release period. As at June 2016, a total of 128,165 certificates of restrictions on travel abroad by DGIR with tax arrears involved amounting to RM3.4 billion are still in force.

b. Audit findings revealed that travel ban management under Section 104 of the Income Tax Act 1967 and Section 22 of the Real Property Gains Tax Act 1976 from the aspect of enforcement actions taken by the Inland Revenue Board of Malaysia (IRBM) is satisfactory. This is shown by the increasing number of cases registered plus the amount involved on income and real property gains tax for the year 2013 to 2015. However, there were some aspects in the travel ban’s implementation that need to be given due attention as follows:

i. Notice of Legal Action/CP91 and CKHT 16 was not issued to taxpayers subjected to travel restrictions, which accounted for 704 cases of individuals with restrictions amounting to RM24.96 million, 49 cases for company directors with restrictions amounting to RM17.30 million and 194 cases for foreigners with restrictions amounting to RM12.97 million;
ii. delay in the issuance on Notice of Legal Action/CP91 and CKHT 16 involving 288 cases of individuals with restrictions amounting to RM11.38 million (delay between 3 days to 26 years 9 months and 18 days); 3 cases of company directors with restrictions amounting to RM62,804 (delay between 13 days to 1 year and 8 months) and 75 cases of foreigners with restrictions amounting to RM6.76 million (delay between 6 days to 9 years and 4 months);

iii. as at the date of Audit being carried out, the enforcement of travel restrictions is yet to be approved in Self-Assessment System for Non-Company in lieu of 180 cases involving 137 individual taxpayers, 10 cases of company directors and 33 cases of foreigners with restrictions amounting to RM11.02 million;

iv. status on several tax defaulters who already being barred from leaving the country were not updated in the Immigration Status on Travelling Overseas System, involving 147 cases of individuals with restrictions amounting to RM6.82 million and 19 cases of company directors with restrictions amounting to RM13.69 million;

v. a civil suit has yet to be taken against the tax defaulters with 1,600 cases even though they have been barred from leaving the country. These include cases of individuals, company directors and foreigners with restrictions amounting to RM95.25 million;
vi. temporary relief had already been approved even before the agreed payment has been received from taxpayers involving 11 cases of individuals with restrictions amounting to RM1.42 million;

vii. non-compliance with the conditions set by IRBM among taxpayers who have been given temporary releases, which includes failure to make installment payments amounting to RM1.06 million and prescribed installment were underpaid amounting to RM29,801 involving 32 individual cases with restrictions amounting to RM1.58 million; and

viii. as many as 14 individual cases and one foreigner case with travel restrictions amounting to RM990,804 have managed to receive a second temporary release despite the fact that they failed to comply with the conditions set by IRBM upon their first temporary release.

c. To further enhance the management efficiency on handling travel restrictions, it is recommended that IRBM considers the following actions:

i. updating the process of blacklisted tax defaulters from travelling abroad and improvement on IRBM system in order to enable checking and monitoring being made towards all taxpayers who have been barred from leaving the country;

ii. enforcement on temporary release processes and civil suits are to be implemented consistently in accordance with the regulations; and
iii. assertive actions should be taken against employers who failed to settle tax arrears of their workers upon leaving Malaysia.

Royal Malaysian Customs Department

a. The Goods and Services Tax (GST) was introduced on 1\textsuperscript{st} April 2015 to replace the sales and service tax. To avoid double taxation, a special refund was allowed for sales tax imposed on goods held on hand on 31\textsuperscript{st} March 2015. The claim for special refund must be made within 6 months from 1\textsuperscript{st} April 2015. Until the due date (i.e. 30\textsuperscript{th} September 2015), the Royal Malaysian Customs Department (RMCD) received a total of 2,540 applications for goods held on hand valued at RM13.255 billion with special refund claims amounting to RM732 million.

b. Audit carried out between October 2015 to January 2016 revealed that generally the special refund scheme has been conducted properly in accordance to sub-section 190(1) of GST Act. However, there were some weaknesses as follows:

i. inefficient management of special refund claims where:

- as at 31\textsuperscript{st} May 2016, a total of 1,863 (73.3\%) applications has been processed and the
remaining 677 (26.7%) applications has yet to be processed involving claims amounting to RM555.86 million. From the total applications that has been processed, 1,217 (65.3%) applications has been approved with refunds amounting to RM102.71 million while 646 (34.7%) applications has been rejected involving claims amounting to RM73.43 million; and

- a total of 95 (27.5%) applications out of 346 audit samples took more than 14 working days to process, resulting in delays between one to 72 days.

ii. there were some lax in the reviewing and approving process of 13 (3.7%) applications out of 346 audit samples where a sum of RM0.59 million was erroneously approved.

c. To ensure better management of GST claims, it is recommended that RMCD consider the following:

i. the Audit Quality Assurance Branch of Compliance Management Division should reassess all claims to ensure special refunds is not erroneously paid to claimants; and

ii. enhance monitoring in input tax credits simultaneously with the special refund claims (if any) before approving any claims.
5. Management Of Cooking Oil Stabilisation Scheme

a. The Cooking Oil Stabilisation Scheme (COSS) was implemented by the Ministry of Plantation Industries and Commodities (MPIC) due to higher crude palm oil prices in the second quarter of 2006 and early 2007. This resulted in an increase in local cooking oil price, burdens the refinery and affecting domestic consumption. MPIC regulates COSS through the Palm Oil and Sago Industry Development Division [Bahagian Kemajuan Industri Sawit Dan Sago (BISS)]. Among BISS functions is to monitor and implement programmes for the stabilisation of palm oil prices. The Malaysian Palm Oil Board (MPOB), an agency under MPIC is responsible in enhancing the well-being of the Malaysian oil palm industry through research, development and excellent services. COSS is a funding scheme to subsidise refinery at a monthly basis. The subsidy was calculated based on the difference in threshold price of RM1,700 per metric tons with the average price of crude palm oil published by MPOB, with limit to the cooking oil packaging quota approved by MPIC. As at April 2016, MPIC has approved monthly cooking oil quota amounting to 82,169 metric tons for 25 refineries and 241 packaging companies. The total subsidy paid for the period from 2013 to April 2016 was RM2.388 billion.
b. Audit conducted between April to July 2016 revealed that the verification process use in ensuring the fairness and accuracy of subsidy claims by refinery was in proper manner and satisfactory. However, there were some weaknesses in the management of COSS that should be improved as follows:

i. COSS”s quota set by 2.5kg per capita consumption was high and not supported by the study of actual needs of Malaysians;

ii. 5 (31.3%) out of 16 companies with an approved quota of more than 500 metric tons per month were having lower paid-up capital compared to the limit set by MPIC. One (20%) of those 5 companies was ineligible to be considered for the distribution of quotas due to its paid-up capital condition;

iii. 7 quota holders were given permission to appoint a third party to carry out packaging activities of cooking oil (toll-pack) even though it was not in compliance with the Standard Operating Procedures;

iv. temporary packaging quota were given to 10 refineries and 8 packaging companies without complying to the Standard Operating Procedures and it was prolonged between 9 to 12 months; and

v. as at April 2016, temporary packaging quota approval has resulted in excess maximum quota limit between 64 to 464 metric tons per month.
Hence, there were increase in Government’s subsidy expenditure estimated to RM2.92 million.

c. To overcome the weaknesses highlighted, it is recommended that MPIC consider the following:

i. revise calculations used for COSS quota by studying the actual household needs;

ii. toll-pack activities should be stopped immediately;

iii. temporary quota packs should be supported with justifications outlined in SOP; and distribution period should not exceed 6 months and COSS approved quota; and

iv. COSS claim procedure which was solely based on documentations should be improved. Constant monitoring and control on cooking oils should be made to prevent distribution abuse or leakages. This is also to ensure that subsidised cooking oils are supplied and made available in the market. Moreover, the National Blue Ocean Strategy (NBOS) should be established in collaboration with the Ministry of Domestic Trade, Co-operatives and Consumerism [Kementerian Perdagangan Dalam Negeri, Koperasi dan Kepenggunaan (KPDNKK)] as well as MPOB to further enhance monitoring at retailing stage.
6. Dairy Cluster Project

a. Dairy Cluster Project [Entry Point Project 13 (EPP 13)] is one of the 16 EPPs under the Agriculture’s National Key Economic Areas (NKEA) which has been implemented since 2011 and aimed to achieve economic growth and transformation by 2020. The main objective of this project is to reduce the country's dependency on imports of fresh milk by establishing local dairy clusters under the supervision of anchor companies and Department of Veterinary Services Malaysia (DVS). Based on the Economic Transformation Programme (ETP) Chapter 15: Agriculture, objectives of EPP 13 in 2020 are to develop 3 dairy clusters with 27,000 dairy cattle which could produce milk approximately 107 million liters (15 liters/cow/day) and downstream processing facilities; to increase Malaysia's milk sufficiency from 2% to 5%; reintroduce the school milk programme to improve consumer perception of the local dairy industry while ensuring steady purchases; generate Gross National Income (GNI) amounting to RM326 million and the creation of 800 new jobs. The total cost of EPP 13 project worth of RM709 million of which RM184 million (maximum 30% of project cost) is funded by the Government while the remaining 70% or more are self-funded by anchor companies. From 2011 to 2015, 3 contracts under dairy cluster have been signed.
between Government and 3 anchor companies with incentives (government funding) amounting to RM43.95 million. While for non-cluster project, DVS has spent a total of RM15.98 million to procure dairy cattle and cold chain equipments for farmers; construction of a milk quality laboratory for DVS and milk tanker for the Department of Veterinary Services and Animal Industry Sabah (JPHPT). As at December 2015, total commitments/expenditure (for cluster/non-cluster dairy projects) amounting to RM59.93 million.

b. Audit conducted from December 2015 to March 2016 revealed that the EPP 13 involving 3 anchor companies, 261 farmers (beneficiaries of dairy cattle) and 2,392 dairy cattle were carried out continuously in which one of the anchor company has achieved its target, while 2 other anchor companies actively progressing. In addition, there was indeed an increase in country’s milk production at the average of 24.5% from 2012 to 2015 compared to 2011 (before the input of EPP 13), Key Performance Indicator (KPI) of new job creation has achieved 39.13% and the selection process of anchor companies were well managed. However, as at March 2016 the number of dairy cattle and milk production were still low and unable to achieve the projection objective of EPP 13 project by year 2020. In addition, the increase in population of dairy cattle could not be comprehended. Among other weaknesses identified were as follows:
i. reduction in the number of dairy cattle was due to death/theft/lost/sold, unutilized cold chain equipment and some dairy cattle received were eventually not pregnant;

ii. overall Gross National Income (GNI) for 3 anchor companies were set at 25% (RM81.63 million) compared to target of RM326 million;

iii. incomplete clauses in contract document i.e. details of the total project cost, KPI creation of new jobs and the target to increase the number of dairy cattle; and

iv. unutilised milk tankers in Sabah and newly-built milk quality laboratory in Malacca for 3 years.

c. To ensure an effective management on implementation of EPP 13 and to achieve its objective by year 2020, it is recommended that the parties involved to take actions on the following matters:

i. DVS should review mechanism/method in determining the suitable approach to increase the number of dairy cattle constantly with optimum cost. Target of increasing the number of dairy cattle annually or birth intervals to be specified in the contract/other documents as one of the KPI projections to anchor companies/cluster/non-cluster dairy farmers. The selection of capable and committed farmers should be implemented in ensuring continuous and enhancement of dairy cattle breeding operation;
ii. DVS should improve the monitoring and strengthening its communication and coordination (C & C) with anchor companies and non-cluster dairy farmers to ensure the achievement of its objectives and KPIs within the stipulated period. Moreover, DVS should review the ideal selling price of raw milk for all parties to create equilibrium toward ensuring continuity and enhancement in dairy industry;

iii. DVS and anchor companies should enhance the monitoring on procurement management of pregnant and infection-free dairy cattle, the retraction/death/loss/sale of dairy cattle, effective usage of cold chain equipment and records system for assessing the performance of dairy clusters project; and

iv. DVS should ensure milk tankers and newly-built milk quality laboratory are promptly utilised considering cost implications to ensure that the Government gets value for money.

MINISTRY OF RURAL AND REGIONAL DEVELOPMENT

7. Management Of Rural Water Supply Programme In Peninsular Malaysia

a. Since the year 1974, the Government of Malaysia has implemented the Rural Water Supply Programme [Bekalan Air Luar Bandar (BALB)] under the Accelerated Rural Water Supply in the Second Malaysia Plan (1971 to 1975) and continued until Eleventh
Malaysia Plan (RMKe-11). The main objective of BALB programme is to provide clean and treated water to rural communities throughout the country (including placement outside the local authority area) to improve their health and quality of life. Thus, simulating the economy, industry, agriculture and tourism development. The main scopes of the programme are reticulation, alternative and upgrade/build new plant. Ministry of Rural and Regional Development [Kementerian Kemajuan Luar Bandar dan Wilayah (KKLW)] will hand over the completed BALB reticulation project to State Water Authority [Pihak Berkuasa Air Negeri (PBAN)] while BALB alternative project to Department of Orang Asli Development (JAKOA) for operation and maintenance purposes. For the period of Tenth Malaysia Plan (2011 to 2015), there were 141 completed projects with an allocation of RM1.254 billion. As at 31 December 2015, a total of 129 (91.5%) from 141 projects have been completed while 12 (8.5%) projects are still under a Defect Liability Period (DLP).

b. The audit performed at KKLW and 54 villages/locations revealed that in general the BALB Programme has achieved the target. The expenditure performance for the programme was good as 99.9% of the allocation was utilised. The procurement management was properly executed, especially in appointment of the contractor, members of Quotation/Tender Committee and the price negotiation meetings" resolution. However, the implementation of BALB project was less satisfactory due to some weaknesses as follows:
i. a total of 17 villages/locations of BALB reticulation project were not utilised properly i.e. uninstalled and un-transferred water meter as well as uncompleted meter installation;

ii. a total of 6 villages/locations of BALB reticulation project amounting to RM10.64 million were not utilised due to low water pressure; losses and non-functional water inlet valve; vandalism and end capped pipeline;

iii. 6 out of 8 BALB alternative projects failed to supply water to the villagers;

iv. 46 out of 71 BALB alternative projects which have been fixed are yet to be surrendered to JAKOA for operation and maintenance purposes. However, 19 of those fixed projects were beyond its operation and maintenance duration; and

v. 11 out of 54 BALB projects visited worth RM14.6 million were in local authority jurisdiction which was not supposed to be included in BALB scope.

c. To overcome the weaknesses highlighted, KKLW is recommended to take action on the following matters:

i. create an understanding between JAKOA and PBAN in ensuring all completed BALB projects by KKLW would benefit the villagers. Any uninstalled (home owners) and un-transferred (PBAN) water meter issues should be addressed together;
ii. consultants should provide a complete and detailed preliminary report as well as taking into consideration the existing water supply systems condition such as water pressure and sources, resident population and land status (local authority and private) prior to the commencement of building, restoring and upgrading works. If there is changes in the preliminary report involving initial work scope, KKLW should consider the amendments to avoid recurrence of restoration works that contributes to wastage of Government's fund; and

iii. KKLW should make an assessment on BALB project's outcome to ensure that the facilities can be utilised optimally and the Government gets best value for money on expenses incurred.

MINISTRY OF NATURAL RESOURCES AND ENVIRONMENT

Forestry Department Peninsular Malaysia

8. Management Of The Central Forest Spine Project Under The Sustainable Forest Management Programme

a. The Forestry Department Peninsular Malaysia (FDPM) is an agency under The Ministry of Natural Resources and Environment (NRE) responsible for management, planning, conservation and development of Permanent Reserved Forests areas in line with The National Forestry Policy 1978 (Revised 1992) and The National Forestry Act 1984. Under the Tenth Malaysia Plan
(RMKe-10), a total of RM80.57 million has been allocated for The Sustainable Forest Management Programme. From the given allocation of RM43.04 million, a total of RM40.13 million (93.2%) has been spent for the Central Forest Spine (CFS) up to December 2015. The main objective for the CFS project is to sustain and preserve biological diversity to ensure continuity in national forest service. CFS areas are the important green heart which comprise of 4 main and critical forest complexes for plants and animals. The implementation of CFS Project involved 8 states namely Johor, Kedah, Kelantan, Negeri Sembilan, Pahang, Perak, Selangor and Terengganu. The National Physical Plan (NPP) identified that Peninsular Malaysia has lost a huge amount of its forest, as well as forest fragmentation problem due to various infrastructure development and agriculture activities. Hence, The Master Plan for Ecological Linkages has been prepared by the Town and Regional Planning Department in 2010 to re-establish, conserve and enhance the connectivity among remaining main forest areas to create physical forest network that are connected throughout the CFS areas. To implement the project, NRE has been appointed as the main agency due to NRE"s role that are closely related to the goals and objectives of the project. The Department/Agencies that involved in this project are FDPM, Department of Irrigation and Drainage Malaysia (DID), Department of Wildlife and National Parks (DWNP) and Forest Research Institute Malaysia (FRIM).
b. Audit conducted from August to November 2015 revealed that in general the implementation of CFS project aids to sustain forest areas through continuous restoration of forest habitat. It also connected 2 separate forest complexes caused by development through the construction of viaduct to minimise conflict between wildlife and human. However, there are some weaknesses in the implementation of CFS project that should be considered by agencies as follows:

i. weaknesses in managing the issues on site which contributed to the delay of the project;

ii. noncompliance of works to specification/quality;

iii. non-fixed and biological assets (plant) management were not in accordance to procedure;

iv. weaknesses in law enforcement;

v. maintenance of project's component such as biological assets (plant) and delineation of forest were not done accordingly.

c. To overcome the weaknesses highlighted and to ensure that the same weaknesses do not recur in other CFS project, it is recommended that the parties involved to take actions on the following matters:

i. the management of project at site should be improved by FDPM and DID. Any issues/problems arise should be solved immediately to avoid delays
in project's completion. Also, the officer in charged should ensure that works completed followed the required specification/quality and carried out the maintenance works accordingly;

ii. FDPM and DWNP should improve the management of non-fixed and biological assets (plant). This is to ensure that the Government gets the best value for money as well as to ensure that the project's objectives are achieved; and

iii. FDPM and DWNP should enhance the enforcement of law.

MINISTRY OF NATURAL RESOURCES AND ENVIRONMENT

Mineral And Geoscience Department Malaysia

9. Quarries Management And Its Environmental Effects

a. Quarrying is the process of excavating rock material by extracting and removing of any land through means of crushing, grinding or other treatment works on the site or elsewhere in the State. Sources of rock material are limited, non-renewable and only be found in certain areas. The quarry industry plays significant role in the economic development by ensuring adequate and continuous supply of building materials for construction and manufacturing sector. Demand for natural resources is expected to increase in line with the economic development towards a vision of becoming a
developed and high-income nation by the year 2020. The number of quarries in Malaysia has increased by 20.5% from 312 quarries in year 2012 to 376 quarries in year 2015. The related laws and regulations for quarries management is the National Land Code, Mineral Development Act 1994, States Enactment/Ordinance and States Quarry Rules.

b. Audit conducted from October 2015 to January 2016 revealed that the overall quarries management was satisfactory. However, there were several matters that need improvements as follows:

i. environmental aspects encompassing the control of buffer zone, dust pollution control, siltation pond maintenance and waste disposal were not in accordance with the stipulated regulations;

ii. unsatisfactory quarrying activities with regards to shut and abandoned quarries as well as the maintenance of explosive magazines;

iii. unplanned land usage had caused the quarries to operate beyond the approved area;

iv. monitoring and enforcement could not be fully implemented for the States that do not imposed State Quarry Rules; and

v. unrevised royalty rates for more than 10 years.
c. To overcome the weaknesses highlighted, all parties involved were recommended to take action as follows:

i. collaboration and coordination between Departments and related agencies should be enhanced in order to ensure the sustainability of quarries management especially in controlling buffer zones and conserving the environment; and

ii. the Ministry and State Governments should work together by adopting State Quarry Rules in assuring the implementation, supervision, monitoring and enforcement as well as protection of the environment.

MINISTRY OF TRANSPORT MALAYSIA

Marine Department Malaysia
10. Dredging Works Project For Navigation Safety

a. The Marine Department Malaysia [Jabatan Laut Malaysia (JLM)] is responsible in relation to marine activities by improving the effectiveness and efficiency of port facilities as well as promoting domestic and foreign trade participation among Malaysian vessels. Dredging works (deepening and widening) were carried out in solving problems such as shallow channels due to high rates on estuary sedimentation and riverbank erosion to ensure the safety of merchant ships sailing through Malaysian waters. Thus, an exclusive „design and built“ dredging concession agreement between the
Government of Malaysia and Malaysian Maritime & Dredging Corporation Sdn. Bhd. (MMDC) was signed on 19th October 2005 to safeguard navigation channel at all times. The agreement period is for 15 years from 19th October 2005 until 18th October 2020. As at December 2015, the contract worth RM507.77 million was awarded to MMDC by the Ministry of Transport Malaysia (MOT).

b. Audit conducted between May to August 2015 revealed that generally, the implementation of dredging works was satisfactory as ships were able to access the dredged navigation channel which was the dredging objectives. However, there were some weaknesses identified as follows:

i. the appointment of MMDC for dredging works was done without proper justification as it was newly incorporated and without the Cabinet’s approval;

ii. the dredging project in Kuala Perlis was not done in accordance to its targeted depth due to sedimentation prior to project completion. In addition, the approval for dumping site took 187 days;

iii. delay in work completion due to late supply of vessels and machinery. Furthermore, supplied vessels and machinery were not in good condition as it is old and often broke down. This shows that MMDC’s commitment was unsatisfactory;
iv. the use of foreign vessels was not in line with the Concession Agreement objective which to ensure local equipment were fully utilised by MMDC;

v. the implementation of equal percentage method for each block was not suitable as MMDC prioritise dredging activities in shallow waters compared to the critical areas; and

vi. Terusan Bagan River project was terminated by mutual termination and RM5.77 million was spent by the Government, however the project’s objective was not achieved.

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

i. MOT should comply with the Ministry of Finance’s instructions by submitting the Cabinet Paper pertaining to the appointment of dredging concession;

ii. MOT/JLM should review its method on equal pay rates for each dredging block by imposing rate based on critical depth and complexity factor;

iii. JLM should ensure that suitable vessel were used by MMDC for dredging work to avoid frequent breakdown and dredging material could be transported effectively; and
iv. JLM should ensure that all navigation channel within the scope of work are free from any obstacles to avoid delays in project completion.

MINISTRY OF ENERGY, GREEN TECHNOLOGY AND WATER

Sewerage Services Department

11. Pantai 2 Regional Sewage Treatment Plant Project

a. Pantai Regional Sewage Treatment Plant (Pantai STP) in the overall, provides sewage treatment services for Pantai catchment areas covering 6,700 hectares. The catchment areas include Bandar Baru Sentul, Sentul Raya, part of Kuala Lumpur City commercial centers, Bangsar, Bukit Kiara recreational area, part of Old Klang Road, Petaling Jaya and others. Pantai STP consists of 2 parts and the position was separated by the New Pantai Expressway (NPE). The existing Pantai STP consists of a mechanical plant catering 377,000 population equivalent (PE) and an aerated lagoon with capacity of 550,000 PE. The mechanical plant is known as Pantai 1 Sewage Treatment Plant (Pantai 1 STP) whereas the aerated lagoon, after being upgraded is known as Pantai 2 Sewage Treatment Plant (Pantai 2 STP). Pantai 2 STP is a project under the 10th Malaysian Plan. The objective of this project is to upgrade the existing aerated lagoon system into a mechanical system of 1.42 million PE which would increase the overall capacity of Pantai STP to 1.80 million PE. Pantai 2 STP project was implemented by
The Ministry of Energy, Green Technology and Water [Kementerian Tenaga, Teknologi Hijau dan Air (KeTTHA)] through Sewerage Services Department (Jabatan Perkhidmatan Pembetungan [JPP]) as the implementation agency with a contract worth of RM983.25 million. The project was awarded through direct negotiation to BEWG (M) Sdn. Bhd. on a Design and Build method. Meanwhile, Kumpulan Ikhtisas Projek (M) Sdn. Bhd. had been appointed by JPP as a Project Management Consultant (PMC) in order to manage and monitor the project.

b. The Audit performed between January to 30 March 2016 at the JPP head office and Pantai 2 STP site office revealed that technically the sewerage project management was satisfactory from the aspects of design, preparation of plans, drawings and specifications, Hazard and Operability (HAZOP) studies as well as project management programs were in compliance with the stipulated criteria. However, there were several shortcomings identified as follow:

i. Based on the capacity projection of the said project, Pantai STP unable to accommodate for any new development in the Pantai catchment area by year 2035 as specified because by year 2020 the capacity will reach at the optimum development;

ii. implementation of work scopes were not in accordance with the contract conditions. While the
Certificate of Sectional Completion (CSC) was issued although the works were incomplete;

iii. Process proving test as well as testing and commissioning of equipment had not been fully conducted resulted non-assurance compliance on effluent quality and equipment performance as stipulated specifications;

iv. Operation and maintenance had started before the issuance of Certificate of Sectional Completion (CSC); and

v. Low quality of construction works, and malfunctions of equipment within short operating period.

c. In order to overcome the shortcomings raised and to ensure no similar occurrences in future, parties involved are recommended to take actions regarding the following matters:

i. Mega project needs to be planned comprehensively by considering the latest data and from various sources;

ii. JPP needs to carefully examine and review the contract conditions for procurement on design and build method to ensure there will be no technical issues arise. Any changes during work implementation that deviates from the contract conditions, JPP needs to ensure the agreement is amended or addendum is provided; and
iii. JPP needs to carry out an analysis in identifying the causes of defect/malfunction equipment within short operating period in order to certify the condition of supplied equipment are in good quality. Therefore it will reduce the maintenance cost in the future.

MINISTRY OF FEDERAL TERRITORIES

Kuala Lumpur City Hall
12. Project Of Creating Iconic Places And Attractions

a. Project of Creating Iconic Places and Attractions [Mewujudkan Tempat Tarikan Ikonik (MTTI)] by Kuala Lumpur City Hall [Dewan Bandaraya Kuala Lumpur (DBKL)] is an Entry Point Project (EPP) 7 under the National Key Economic Areas (NKEA) Greater Kuala Lumpur/Klang Valley (GKL/KV). It is one of the 12 NKEA under the Economic Transformation Programme to spur economic growth and development by year 2020. Through the NKEA Program GKL/KV under EPP7 - Creating Iconic Places and Attractions which is in line with the Kuala Lumpur Structural Plan 2020, the Kuala Lumpur City will be a global city and heritage centre by transforms the existing attractions and creates world-class iconic attractions to generate higher economic activity and increase revenue from the tourism sector. Physical Planning Division [Bahagian Perancangan Fizikal (BPF)], City Planning Department, DBKL is responsible as the Secretariat for planning and monitoring MTTI projects. While the Director of Project
Implementation and Building Maintenance Department has been appointed as Superintending Officer.

b. Audit performed between August to November 2015 revealed that generally the projects were carried out in accordance with the targeted objectives which is to attract domestic and foreign tourists. However, there were several weaknesses identified as follow:

i. four projects were late in progress and had been completed only after granted approval of 1 to 4 extension of time (EOT) between 110 to 482 days. The EOT was due to the location constraints, transfer of utility facilities, on-site flood issues, weather issues, as well as the frequency changes of design and Variation Order [Arahan Perubahan Kerja (APK)];

ii. appointment of incompetent contractors. I-Nai Venture Sdn. Bhd was appointed as the contractor for HT1, MP & DM Projects despite the company was in the winding up status. Moreover, the appointment of contractors for the HT3 and CDC Projects by the Ministry of Federal Territories was contradicted from the DBKL"s recommendation in respect of technical and finance evaluation resulted problems especially during implementation projects;

iii. lack of coordination between departments/Secretariat of the project resulted duplication of work and wastage of public fund;
iv. weaknesses in the design and unsuitable construction materials, non-compliance of project/work components towards the specifications and quality;

v. no evidence on regular monitoring for HT1, MP & DM Projects by KBM Konsult Sdn. Bhd. The Non-Conformance Report (NCR) for non-compliance works, specifications and quality was only issued by DBKL; and

vi. social problems in the project area (especially HT3) such as influx of foreigners and homeless, illegal activities, vandalism and misuse of public facilities.

c. To overcome the weaknesses highlighted and preventing them from recurring in the future, it is recommended that all parties involved considering the following actions:

i. comply to the Government’s procurement policies and regulations to ensure project offer is objective and fair. Selection of competent contractors may avoid project failure/deficiencies;

ii. enhance coordination between departments/DBKL Project Coordinator to avoid duplication of works;

iii. improve monitoring during the project implementation to ensure that the work has been carried out in accordance with contract terms,
conditions and specifications as well as work quality; and

iv. enhance enforcement and stringent actions relating to social problems as well as misusing public facilities around the project area

MINISTRY OF EDUCATION MALAYSIA

13. Management Of Special Education

a. The Special Education was designed to cater educational needs for special needs students who have been identified with visual impairment, hearing impairment, learning disability, physical disability and multiple disabilities in pre-school, primary, secondary and tertiary level. Teaching for Special Needs Students [Murid Berkeperluan Khas (MBK)] was conducted in Special Education School [Sekolah Pendidikan Khas (SPK)], Integrated Special Education Programme [Program Pendidikan Khas Integrasi (PPKI)] and Inclusive Education Programme [Program Pendidikan Inklusif (PPI)]. For the secondary level, the Ministry provide either academic or vocational education for special needs students. MBK"s performance evaluation was based on merit in academic examination, vocational skills examination and sports. Special education aims to develop excellent human capital with special needs through quality education system; provide special education facilities, appropriate and relevant education; opportunities to develop potential and talent,
adequate and latest teaching and learning materials; as well as ensure sufficient and trained special education teachers/instructors. Special education is managed and supervised by the Special Education Division [Bahagian Pendidikan Khas (BPKhas)] at the headquarters using operational expenditure allocation. For the period from 2013 to 2015, BPKhas has spent a total of RM96.32 million (98.9%) (excluding emoluments) from its allocation amounting to RM97.39 million.

b. Audit conducted from February to May 2016 revealed that the overall management of special education was satisfactory with regards to students' admission/placement; posts of special education teachers/instructors and students helper; and classroom facilities. However, there were some weaknesses that should be given due attention by the Ministry as follows:

i. payment procedure for Special Students Allowance [Elaun Murid Khas (EMK)] were not complied with;

ii. implementation of Upper Secondary Vocational Programmes/Malaysia Skills Certification [Sijil Kemahiran Malaysia (SKM)]:

• teaching and learning equipment were obsolete and irrelevant compared with the industry requirements which was based on National Occupational Skills Standard (NOSS), Department of Skills Development (DSD) curriculum; and
• Vocational teachers" qualification were not in accordance with requirements/SKM set by DSD.

c. In accordance with the Education (Special Education ) Regulations 2013 and to ensure that MBK is getting the best education benefit in special education, it is recommended that the Ministry/Special Education Division (BPKhas) to consider the following:

i. review or improve procedure and EMK implementation condition especially in regards to payment procedure to ensure its relevance in current condition as well as ensuring its compliance with the rules set; and

ii. ensure adequate fund is allocated for teaching and learning equipment and training for vocational teachers so that its objectives could be achieved.

MINISTRY OF EDUCATION MALAYSIA

14. Primary School Construction Projects

a. Primary education is a continuation of pre-school education. To ensure that teaching and learning process is conducted in a conducive, comfortable and safe environment, the Ministry of Education Malaysia (Ministry) has implemented 28 construction projects with a total cost of RM430.2 million under the Ninth Malaysian Plan (RMKe-9). As at 31\textsuperscript{st} March 2016, a total
of 26 primary schools have been completed and the remaining 2 were still under construction.

b. Audit carried out from January to April 2016 revealed that the financial performance was in accordance with work progress; performance bonds, public insurance policy and insurance of works were managed in a proper manner; and school projects were completed and operated. However, there were some weaknesses identified as follows:

i. professional fees no.1 paid to 2 consultants amounting to RM0.19 million for the supervision of SK Taman Scientex and 3 consultants amounting to RM0.63 million for the supervision of SK Padang Garuda were made based on the letter of intent/Letter Of Acceptance without contracts;

ii. 790 days extension of time was approved by the Ministry due to delay in approval of Variation Order which has resulted delay in interim payments to MRA Construction Sdn. Bhd. for SK Padang Garuda;

iii. assets and inventories were acquired earlier than the expected school opening date between 192 to 395 days for SK Taman Scientex and 1,855 to 2,277 days for SK Padang Garuda; and

iv. allocation for the procurement of assets and inventories for SK Taman Scientex were used by
the State Education Department (SED), District Education Office (DEO) and other schools.

c. To overcome the weaknesses highlighted and enhance the management of primary school construction projects, it is recommended that the Ministry considers the following:

i. enhance monitoring on contract management and extension of time;

ii. Ministry and State Education Department should review the budget allocation policy, procurement methods as well as acceptance and labeling of assets procedure for new school projects; and

iii. the appointment of caretakers must be made formally which includes list of duties as caretaker.

MINISTRY OF EDUCATION MALAYSIA

15. Management Of Daily Residential Schools

a. The first residential school in Malaysia is the Malay College Kuala Kangsar which was established in year 1905. The operation of the hostel is stipulated under Section 64 and 66, Chapter 12, Part IV, Education Act 1996 regarding the provision of students’ accommodation. Daily residential schools were built in daily primary and secondary schools, excluding
dormitories for Fully Residential School, Sports School, Technical/Vocational School and Special Education School. The main objective for the management of daily residential school is to provide conducive accommodation for students in need. As at January 2015, a total of 1,463 residential units for daily school were built by the Ministry of Education Malaysia (Ministry) for students in 1,472 schools. The total number of students enrolled for daily residential school in year 2015 was 226,504 (77.3%) compared to its total capacity for 292,977 students. The daily residential school were managed by three divisions under the Ministry namely School Management Division [Bahagian Pengurusan Sekolah Harian (BPSH)], Finance Division as well as Procurement and Asset Management Division [Bahagian Perolehan Dan Pengurusan Aset (BPPA)]. BPDH is responsible in planning, coordinating and monitoring the management of daily residential schools which include the administration, development and students welfare. The financial management on budget allocation is managed by the Finance Division while BPPA is incharge in managing cooked/raw food supplies as well as cleaning and security services. A total of RM3.16 billion was allocated for the period from year 2013 to 2015 and as at 31 December 2015, a total of RM3.05 billion (96.6%) was spent.
b. Audit carried out from August to December 2015 revealed that the overall management of daily residential schools was satisfactory in the following aspects:

i. overall expenditure performance was good;

ii. administrative matters regarding committee of dormitory administration, strategic planning on dormitory management and appointment of hostel warden were managed properly;

iii. contract administration was in accordance with the stipulated rules; and

iv. monitoring was planned and implemented according to the availability of human and financial resources.

However, there were some weaknesses in the management of daily residential school which should be given due attention as follows:

i. the surplus allocation from dormitories food support amounting to RM1.46 million for 14 schools was spent on procurement of assets and inventories not for teaching and learning purposes; maintenance and minor repair for school and hostel exceeding RM50,000 a year which was not in accordance with the stipulated guideline;

ii. non-compliance by the appointed contractor on terms and conditions for cooked food supply services contract i.e. weighing and specification of
raw materials, hygiene/cleanliness and safety of contractors/employees/dining hall;

iii. non-compliance by the appointed contractor on the scope of cleaning services for building and dormitory areas; and

iv. basic dormitory facilities were not in good condition.

c. To overcome the weaknesses highlighted and to ensure that the Government gets the optimum services, it is recommended that all parties involved consider the following:

i. the Ministry should ensure that surplus allocation from dormitories food support is spent according to the guidelines. Thus, the administration of dormitories should report its expenditure performance to the Ministry/State Education Department (SED) for monitoring purposes and it can be used as a basis for consideration on annual provisions of hostel food support claims;

ii. the administration of dormitories, District Education Office (DEO) and SED need to increase monitoring and ensure compliance with the contract condition by contractors. Action should be taken for non-compliance so that the Government gets the best value for money; and

iii. the Ministry should ensure DEO and SED to take immediate action for any deficiencies on basic
facilities so that the objective of providing daily residential schools is achieved.

MINISTRY OF HIGHER EDUCATION

Department Of Community College Education

16. Procurement Of Teaching And Learning Equipment

a. The community college was established on 5\textsuperscript{th} July 2000, through Cabinet Memorandum. Community colleges are the institutions that provide training and skills at all levels as well as educational opportunities for school leavers before they entered the workforce or further pursue study into tertiary education. Currently, the Department of Community College Education [Jabatan Pendidikan Kolej Komuniti (JPKK)] has a total of 94 community colleges across the country with an increase of 10 new community colleges each year until 2020. Community colleges offer a variety of full time skills courses/programmes including 26 courses/programmes at certificate level and 7 courses/programmes at diploma level. To ensure community colleges carry out its functions and role effectively, JPKK had procured appropriate teaching and learning equipment [Pengajaran dan Pembelajaran (PdP)]. The objectives of PdP equipment procurement, among other are to improve the competence and skills of human capital; achieve targeted competent skilled workers by 2020; to promote and expand access to quality technical and vocational training; and to meet the requirements of the current curriculum at community
colleges. For the period of 2012 to 2015, a total of RM61.71 million was spent by JPKK under the development expenditure allocation.

b. Audit performed from October 2015 to April 2016 revealed that the PdP equipment procurement for community colleges generally is good and achieve the objectives set. JPKK has carried out value management procedures in the procurement of PdP in line with the Government's intention to gain value for money and cost optimisation; good expenditure performance; equipment supply were of high quality and achieved user satisfaction and were fully utilised during teaching and learning. However, there were few weaknesses that should be given due attention as follows:

i. the planning of PdP equipment procurement do not take into account the compliance toward financial regulations to avoid split procurement; and

ii. there were significant differences in equipment price between RM1,000 (17.2%) to RM7,200 (900%) for the same type and specification.

c. To ensure that the PdP equipment procurement by JPKK is implemented efficiently, and the Government gets the best value for money, it is recommended that MoHE, JPKK and every community colleges should ensure that each procurement is planned and implemented in accordance with the financial procedures and internal controls.
MINISTRY OF HEALTH MALAYSIA

17. Management Of Medicine Supplies In Health Clinics

a. The Pharmacy Services Programme under the Ministry of Health Malaysia (Ministry) is responsible in ensuring that public gets access to safe, efficacious and quality pharmaceutical products. It also protects their interest by means of enforcing relevant legislations and ensuring appropriate usage on medicines by both healthcare providers and patients. The Pharmaceutical Services Division [Bahagian Perkhidmatan Farmasi (BPF)] is attached at various level namely the Ministry, State Health Departments [Jabatan Kesihatan Negeri (JKN)], State Pharmacy Logistic Affairs Branches [Cawangan Farmasi Logistik Negeri (CFLN)], District Health Offices [Pejabat Kesihatan Daerah (PKD)], hospitals and health clinics [Klinik Kesihatan (KK)]. BPF is responsible for carrying out functions of managing stores and handling technical aspects including specifications as well as product evaluation in contract preparation. This is to ensure the procurement is being managed economically and properly without compromising the quality of medication and non-medication substances; in line with financial and Government procurement procedures. In addition, adequate stock levels are always made available and customers' needs are fulfilled. The procurement of medicines is carried out through an Approved Price Product List (APPL) concession agreement and
contracts by the Ministry. Moreover, the procurement within JKN/CFLN/PKD levels were also being made either through an open tender, quotations or direct purchase in accordance with its limit of authority. Every procurement arrangement such as invitations, appointment of suppliers and issuance of Letter of Acceptance (LoA) were carried out by the procurement division/unit in their respective Responsibility Centres [Pusat Tanggungjawab (PTJ)]. Meanwhile, the specification preparation and suppliers evaluation were conducted together with BPF/CFLN. Such pharmaceutical services between KK type 1 to 4 compared with KK type 5 and 6 were provided differently. All types of KK provide basic services such as dispensing, counseling and store management. Whereas, additional services provided by KK type 1 to 4 are Medication Adherence Clinic Therapy (MTAC), Value Added Services (VAC), Medication Safety (MER) and Adverse Drug Reaction (ADR).

b. Audit conducted between August to November 2015 revealed that the management of medicine supplies in KK was generally satisfactory and it has also achieved its objectives in which medicine supplies were orderly and efficiently distributed. The allocation for the supply of medicines was spent accordingly and the KPI achievement of stockholding was good in all CFLN/PKD visited. The organisation structure at headquarters, states, districts and KKs have clearly defined its segregation of duties and responsibilities in the
management of medicines. On top of that, the Ministry had also enacted several laws and regulations in order to manage a systematic procurement and supply of medicines. A small percentage of vacant post in CFLN/PKD/KK will not affect its whole operation management. However, there were some weaknesses that need to be addressed as follows:

i. 5 (11.1%) out of 45 medicine procurement contracts which were made through tender/quotations worth RM1.56 million was not bound by a formal contract but instead was only guided by LoA. In addition, 31 (68.9%) LoAs for procurement contracts audited at JKN, PKD and CFLN were signed after contract commencement date between 6 to 34 days;

ii. penalty claims due to medicines’ late delivery under APPL and the Ministry’s procurement contract were still pending and there was no penalty clauses provided in the event of a late delivery on medicine supplies made through direct purchases;

iii. acceptance of medicines in 6 locations were not verified at 100% capacity and the medicines’ stock layout in CFLN/PKD/KK’s pharmacy store did not comply with the stipulated procedures;

iv. the store’s security conditions were less satisfactory as medicine stocks were kept in an unlocked room adding with an unlatched back-door as well as stock level below 50cm from the ceiling limit was not observed. In addition, there were a few stores in which their ceiling was cracked/broken/torn off,
leakages in the air conditioning system, unavailable and expired fire extinguishers as well as empty boxes placed outside the store’s back door; and

v. 15 (15.2%) out of 99 payment vouchers worth RM0.49 million in PKD Johor Bahru and 67 (15.3%) out of 115 payment vouchers worth RM1.55 million in PKD Seberang Perai Utara were incomplete whereby Delivery Order and Goods Received Notes [ePerolehan (eP)] have not been attached to the respective payment vouchers.

c. In order to overcome the shortcomings highlighted and preventing them from recurring in the future, it is recommended for the Ministry to consider the following actions:

i. giving a wide range of awareness to every PTJ in respect of processes/procedures/regulations pertaining to store management;

ii. ensuring that financial regulatory/procedures are observed especially in the aspects of procurement, contract administration, payment management as well as enhancing the monitoring of suppliers’ performance. Furthermore, a penalty clause should be given due attention for the procurement on direct purchase. This acts as a protection towards Government’s interest in the event of a late delivery on medicine supplies; and
iii. reviewing its storage suitability, stock arrangements and security levels to enhance an efficient store management and reducing the risk of medicine losses and damages.

MINISTRY OF HEALTH MALAYSIA

18. Management Of Facility Engineering Maintenance Services

a. The Facility Engineering Maintenance Services (FEMS) was one of the support services that was crucial in ensuring smooth delivery to patients. These services include maintenance of all assets in the Ministry of Health Malaysia (Ministry) except for medical equipments. To enhance the efficiency of hospital services, the Ministry had privatised 5 types of support services to 3 concessionaires since 1\textsuperscript{st} January 1997 and FEMS was one of them. The agreements were signed for a period of 15 years (28\textsuperscript{th} October 1996 to 27\textsuperscript{th} October 2011) and it was executed by three concessionaires, namely Faber Medi-Serve Sdn. Bhd., Radicare (M) Sdn. Bhd. and Pantai Medivest Sdn. Bhd. As at March 2015, an interim agreement has been granted until a new concession agreement was signed. On 1\textsuperscript{st} April 2015, the Ministry has signed a new Concession Agreement which covers a period of 10 years (1\textsuperscript{st} April 2015 to 31\textsuperscript{st} March 2025) involving 5 concessionaires, namely Faber Medi-Serve Sdn. Bhd., Radicare (M) Sdn. Bhd., Beach Medivest Sdn. Bhd., Sedafiat Sdn. Bhd. and One Medicare Sdn. Bhd.
The FEMS objectives, among others, were to ensure that all assets and facilities are comprehensively maintained, ready to be used safely towards patients and monitoring its implementation so that it is in accordance with the Concession Agreement. The Engineering Services Division [Bahagian Perkhidmatan Kejuruteraan (BPK)] under the Ministry is responsible for regulating FEMS while the Procurement and Privatisation Division [Bahagian Perolehan Dan Penswastaan (BPP)] plays a pivotal role in concessionaire appointments, contract document preparation and enforcement of the agreement. In October 1997, the Ministry has appointed Sistem Hospital Awasan Taraf Sdn. Bhd. (SIHAT) to monitor, supervise and inspect activities conducted in the hospital’s privatised support services. However, SIHAT’s services was later discontinued in year 2011 and such responsibilities were then transferred to both engineer and assistant engineers appointed by the Ministry. At hospitals, a liaison officer was appointed to coordinate and monitor the FEMS’s management carried out by the concessionaire.

b. Audit carried out in September 2015 to May 2016 revealed that maintenance planning has been made each year whereby Hospital Specific Implementation Plan has been provided by concessionaires and later approved by hospitals. The performance-related expenditure on FEMS was good in which all provisions have been spent for the period between year 2013 to
2015. Whereas the Key Performance Indicator (KPI) achievements for Hospital Support Services in terms of FEMS assets' service uptime in the year 2013 and 2015 was recorded at 93.49% and 97.66% capacity respectively and exceeded its targeted index. However, the maintenance implementation and payment of such services performed by concessionaires were less satisfactory as follows:

i. Planned Preventive Maintenance for periods between year 2013 to 2015 was not carried out in all hospitals visited which caters 30 assets;

ii. as at 31st May 2016, there was no evidence of any suspended payment fees worth RM1.13 million upon 95 assets which were not utilised/damaged/disposed. In addition, there were differences in procurement value between RM90 to RM9,620 for 24 assets at Hospital Sibu (HSIBU);

iii. 43 assets worth RM50,203 at Hospital Sultan Abdul Halim (HSAH) and HSIBU were categorized as V4L (Asset Not Found). However, no register was maintained in order to record V4L assets for monitoring purposes. While in Hospital Sultan Haji Ahmad Shah (HOSHAS), no assets were classified as V4L in the master list. However, the concessionaire has informed HOSHAS through its issuance of 16 letters for the period between year 2012 to 2014 involving 168 assets which was reported as V4L;
iv. at HSIBU and Hospital Sultan Ismail (HSI), users have verified the concessionaires” works earlier than the date of completion between 2 and 14 days, involving 6 work orders. In addition, the date of work completion for 54 work orders were not recorded by users;

v. detailed fee information for each of the assets were not included in the Based Fee/NIF (New Installed Facilities) asset list; and

vi. ineffective supervision on FEMS"s management by hospital due to excessive workload of Hospital Operations Engineer [Jurutera Operasi Hospital (JOHN)]. As at 30th April 2016, the average number of FEMS"s assets that need to be monitored by JOHN/Assistant JOHN is between 2,109 to 6,625 units per hospital.

c. In order to overcome the shortcomings highlighted and preventing them from recurring in the future, it is recommended for the Ministry to consider the following actions:

i. Preventive Maintenance should be performed according to the specified schedule and fines/penalties should be imposed for non-compliance made by concessionaires;

ii. thorough investigation on the monitoring of maintenance works and payments as well as V4L
management should be monitored more effectively in every hospitals across the country; and

iii. conduct a re-deployment or restructuring on staffing especially towards JOHN/Assistant JOHN to enhance the effectiveness of FEMS’s monitoring.

MINISTRY OF DEFENCE

19. Management Of Fresh Food Supplies And The Privatisation Of Malaysian Army Catering Services

a. There are two methods of food supply in the Malaysian Army [Tentera Darat Malaysia (TDM)] which is a self-cook and catering. The Central Supply Depot [Depot Bekalan Pusat (DBP)] is responsible in servicing the supply of fresh foods (rations). In terms of food preparation, it was then handled by the cookhouse staffs who normally comprises of military and civilian workers. The Privatisation Catering Services [Penswastaan Perkhidmatan Katering (PPK)] is implemented to obtain food services from an appointed concessionaire. The Ration Supply Management Procedure as well as PPK are aligned with the Food Supplies/Catering Technical Instructions issued by the Army Headquarters Logistics Group of the Royal Service Corps [Markas Logistik Tentera Darat, Kumpulan Kor Perkhidmatan Diraja (Mk Log)] to meet all requirements needed during peace or war circumstances. The ration supplies in TDM cells with includes the activities beginning from the order up right until issuance to teams is obliged to Mk Log. For the
period between year 2012 to 2017, there were 74 rations" contracts worth RM442.08 million for 43 camps involving 17 DBPs. Ration is categorised as perishable foods such as vegetables; fishes; meats and fruits which are issued on a daily basis. According to the Armed Forces Council Order [Perintah Majlis Angkatan Tentera (PMAT)] Bill. 10 of 1980, military personnals are eligible for free rations during an operation; running exercises; attending courses/trainings and staying at the Training Institute. Whereas, military personnals living in Mess/Barracks will be charged at a rate of RM1.95 per day. PPK had initially begun as early as year 1998 in which only five cookhouse management in the Central and South Zones have been privatised for a concession period of 15 years. In year 2006, a total of 65 cookhouse were then privatised with a concession period of 16 years by the same company. One year later, the PPK had widen its coverage to 3 other zones namely the North-East, Sarawak and Sabah-Federal Territory of Labuan, which involved 46 cookhouse for a concession period of 15 years. Under these services, the concessionaire is fully responsible in covering raw materials; storages; preparation materials; cooking and serving processes; cleaning equipments; as well as daily management of its dining complex.

b. Audit carried out between April to June 2016 revealed that the management of fresh ration supplies and PPK services for TDM have been generally conducted in an orderly manner and at a satisfactory level. Such
statement emphasises on the compliance with contract terms, PPK management, the supply of fresh rations and dining hall cleanliness. However, there were several weaknesses that should be given due attention as follows:

i. failure to collect penalties imposed on suppliers who have not fulfilled their obligations;

ii. Performance Bond was not submitted within 14 days from the Letter of Acceptance issuance date;

iii. faulty cooking appliances such as chiller and freezer units; and

iv. the cookhouse's condition which requires repairing works.

c. In order to rectify the weaknesses raised in managing ration supplies and PPK services, it is recommended for such parties involved to implement the following actions:

i. the Ministry must allocate sufficient funds for repairing and maintenance works on all defected chiller and freezer units to ensure the quality of rations' freshness. Additionally, any depot or customer units who do not have such amenities must be equipped with the related equipments; and

ii. periodic monitoring shall be carried out on all cookhouse to ensure the cleanliness and safety of consumers.
MINISTRY OF DEFENCE

20. **Construction Of Service Technical Center (STC) For Maintenance And Amelioration On Sukhoi SU-30MKM Aircraft At TUDM Gong Kedak, Terengganu Air Base**

a. Service Technical Center or STC is a second line maintenance and amelioration center for Sukhoi SU-30MKM fighter aircraft. This establishment is part of the Government’s obligation under countervailing programme for the acquisition of Sukhoi SU-30MKM fighter aircraft which includes an issuance of aircraft components with the Federal State Unitary Enterprise (Rosoboronexport), Russia. All of the countervailing components have been fully received starting from September 2008 until October 2011. The construction of STC is to ensure that Sukhoi SU-30MKM fighter aircraft will always be in an optimum level to be operated in mission or training purposes. On January 2012, the Economic Planning Unit (EPU), Prime Minister Department had approved the STC project with a ceiling cost of RM73 million under the Second Rolling Plan of the Tenth Malaysia Plan (RMKe-10). It comprises a total cost of RM65 million for the said construction and another RM8 million on Special Equipments. The Ministry of Finance Malaysia (MOF) had appointed Sharikat Pembenaan Setia Jaya Sdn. Bhd. (SPSJ) as the contractor with a contract value of RM71.49 million through a „Design and Build” method.
SPSJ was selected through a restricted tender process and henceforth, a Letter of Award was granted on 10\textsuperscript{th} March 2014, followed by a formal contract which was signed on 7\textsuperscript{th} July 2014 with a period of 78 weeks beginning from 24\textsuperscript{th} March 2014 until 20\textsuperscript{th} September 2015. The Ministry of Defence (Ministry) has engaged with Public Works Department (PWD) as the implementing agency on 15\textsuperscript{th} April 2013. This project consists of a hangar building, ADZ Bay, POL Store, AGSV/E Garage, Shelter, Ramp Service, Apron Area and Special Equipment procurement.

b. Audit conducted between April to June 2016 revealed that generally the performance of STC project was less satisfactory. During the first 10 months, a sluggish construction progress had resulted in a takeover by a nominated sub-contractor on 15\textsuperscript{th} January 2015. There were also several weaknesses identified as follows:

i. appointment of unqualified and financially unsound contractor had affected project implementation and progress;

ii. the second Extension of Time (EOT 2) has been approved even though a Certificate of Non Completion (CNC) has been issued; and

iii. construction works were satisfactory except for a few certain non-compliance, inadequacies, and defective issues which requires appropriate measures to be taken.
c. In order to overcome the weaknesses highlighted and preventing them from recurring in the future, it is recommended for the Ministry to consider the following actions:

i. ensure that such appointment on contractors is made based on their experiences, qualifications and capabilities to execute the project; and

ii. engage in a continuous and effective monitoring so that such construction works are in accordance with the stipulated specifications and standard guidelines.

MINISTRY OF HOME AFFAIRS

21. Management Of Film Censorship Control And Enforcement

a. The Film Censorship Act 2002 (Act 620) had defined films as cinematograph film, videotape, laser disc, diskette, compact disc, hard discs, and other records that show a moving picture in sequence whether or not accompanied by sound. The owner of a film should present the film for censorship and approval before distributing and screening to the public. The Film Censorship Control and Enforcement Division [Bahagian Kawalan Penapisan Filem Dan Penguatkuasaan (BKF)] under the Ministry of Home Affairs (MOHA) is responsible to manage the censorship of films and film publicity materials as well as carry out efficient and
effective enforcement. A total amount of RM47.73 million in operating expenditure has been allocated for the year 2013 to 2016 and as at 29th February 2016, a total of RM40.60 million (85.1%) was spent. The objective of BKF is to ensure all films and films publicity materials manufactured, produced, in possession, in custody, under control, screened, exhibited, circulated, rented or sold in Malaysia have been censored and approved as well as to carry out enforcement against any person who contravenes the Film Censorship Act 2002 (Act 620). It is also to ensure that the film distributed and screened in Malaysia adheres to the 4 main aspects namely security and public order, religion, socio-cultural as well as decency and etiquettes. Film censorship is carried out by Film Censorship Board [Lembaga Penapisan Filem (LPF)]. The function of LPF is to implement film censorship policies and to censor films in Malaysia. It is headed by a Chairman and supported by a Vice Chairman as well as Board members. The Board was also assisted by the Secretariat which headed by BKF’s Under Secretary. Once the films have been approved, Certificate “A” will be issued while Certificate “B” will be produced for every duplicated copy of films for distribution and sales. The Film Appeal Committee [Jawatankuasa Rayuan Filem (JKRF)] was also appointed to verify and amend LPF”s decision. Enforcement carried out by the BKF is to prevent all forms of activities i.e. distribution, sale, display, hire, copy or possession of obscene films, uncensored films, unapproved films, uncertified films (without Certificate “A” and “B”) and unapproved publicity materials which
are being circulated in the market. These offences are enacted under Section 5 – Obscene Film; Section 6 – Unapproved Film or Film Publicity Materials and Section 18 – Display Of Mark Of Approval, Certificate And Classification of the Film Censorship Act 2002.

b. Audit conducted between March to June 2016 revealed that BKF have achieved its objectives by approving 134,712 (99.6%) out of 135,279 censorship application films. BKF had also carried out a total of 40,030 (113.5%) enforcement activities compared to its target of 35,280. Several aspects on BKF's management were satisfactory as follows:

i. both 16 and 2 appointments on LPF and JKRF members respectively were in order;

ii. a total of 1,402 (98.0%) films, 10,953 (98.7%) tapes (96.5%) and 55 film censorship appeals have been approved within the prescribed time;

iii. state BKF's exhibit stores were in a safe, tidy and orderly condition; and

iv. monitoring of film censorship and enforcement has been implemented accordingly.

However, there were some weaknesses in the management of film censorship and enforcement as follows:
i. 7 (58.3%) out of 12 pending legal action cases have incurred differences in the number of exhibits seized with the List of Titles prepared; and

ii. directors were not appointed as Disposal Committee Chairman for 12 disposal cases. Meanwhile, Committee members appointed by the Chairman were not from Grade N22 and above for 25 cases of disposal.

c. To improve the weaknesses highlighted and preventing them from recurring in the future, it is recommended that BKF to consider the following:

i. dispose of unused equipment and outdated design of Certificate B"s; and

ii. improve recording controls on seizure exhibits to ensure it is tally with the physical units.

MINISTRY OF HOME AFFAIRS

Malaysian Prison Department
22. Procurement Management

a. Prison is a place whereby prisoners are detained, controlled and have to undergo various rehabilitation activities until the day of their release. The Malaysian Prison Department (Prison Department) is the final institution in the country’s Criminal Justice System implementation and it is accountable to the Ministry of
Home Affairs (MOHA). The objectives of Prison Department are to ensure prisoners/inmates/detainees undergo lawful detention until release; control a safe and conducive environment; given treatments in accordance with law and regulations; undergo appropriate and effective rehabilitation as well as social reintegration programmes. Currently, the Prison Department has 36 Prison Institutions and it requires various facilities and equipment to perform its functions effectively. This requirement is implemented through procurement of supplies, services and works such as foods, clothing, vehicles and office equipment. For services procurement, it involves manpower/expertise to implement such programme/project/activity. Meanwhile, work procurement incorporates of civil construction such as building upgrades, landscaping, drainage and others that include mechanical and electrical works. Prison Department should ensure government procurement was done in compliance with its principles i.e. public accountability, transparency, value for money, open competition and fair dealing. In year 2015, the Prison Department headquarters and 6 Prison Institutions visited were allocated RM949.73 million and RM62.08 million in operating and development expenditures respectively.

b. Audit performed between January to May 2016 revealed that Prison Department have generally taken appropriate measures in ensuring the procurement
complied with the stipulated procedures i.e. power delegation; established procurement committee; meetings" resolution documentation as well as systematic process of equipment’s acceptance and storage. However, there were several weaknesses as follows:

i. a total of RM0.39 million in split procurement at Prison Department headquarters; and

ii. out of 71 contracts, 20 (28.2%) of them were delayed in signing between 16 to 1,055 days and 3 (4.2%) others were not presented to the Audit for inspection.

c. To ensure the procurement management in Prison Department is implemented properly and the Government gets best value for money; it is recommended for MOHA/Prison Department to consider the following actions:

i. setting up an Investigation Committee and to take disciplinary actions against officers who failed to comply with the financial regulations;

ii. conduct an "after sales service" evaluation on equipment which require maintenance services to ensure suppliers comply with their maintenance obligation within stipulated period in protecting Government's interest; and
iii. give serious attention on contracts administration i.e. contract signing period and Performance Bond preparation as well as its coverage duration.

MINISTRY OF HOME AFFAIRS / PUBLIC WORKS DEPARTMENT

23. Construction And Completion Of The Police Training Centre Project In Mukim Pelangai, Bentong, Pahang

a. The Construction and Completion of the Police Training Centre Project in Mukim Pelangai, Bentong, Pahang is under the Ninth Malaysia Plan with its ceiling cost of RM150 million. This project covers an area of 1,300 acres located in Mukim Pelangai, Bentong, Pahang. The purpose of this training centre is to integrate all training institutions under 'A Single Roof And One Stop Centre' concept based on Public Order (Ketenteraman Awam). It consists of 8 training institutions namely the General Operations Force [Pasukan Gerakan Am (PGA)], Special Operations Command [Pasukan Gerakan Khas (PGK)], Federal Reserve Unit [Pasukan Simpanan Persekutuan (PSP)], Traffic, Crime Prevention (Pencegah Jenayah), United Nations Peacekeeping Force (Pasukan Pengaman Pertubuhan Bangsa-Bangsa Bersatu), Crisis and Disaster (Krisis dan Bencana) as well as Armour Driving School (Sekolah Memandu Perisai). Through this concept, these institutions under the Department Of Internal Security/Public Order [Jabatan Keselamatan Dalam...
Negeri/Ketenteraman Awam] will be restructured to an integrated organisation management towards the efficiency and effectiveness of training activities. The client of this project is the Ministry of Home Affairs (MOHA) while Public Works Department (PWD) has been appointed as Implementing Agency and the Superintending Officer is Pahang’s PWD Director. The construction of PGA Learning Centre is one of the 8 training institutions and it consists of a lecture complex, cafeteria, saluting dais and drill shed, participant accommodation, dining and prayer hall, quarters (class C, E and F), workshops, oil pump, security post, ammunition store (class C), toilet, shooting range and others. Whereas, the remaining 7 institutions will be constructed in the next phase. On 23rd September 2008, the Ministry of Finance (MOF) has appointed Malgran Resources Sdn. Bhd. (MRSB) through Direct Negotiation by using a Design and Build method. However, the work progress was unsatisfactory since March 2010 until September 2013. Among the causes of delay was due to management problems and contractor’s inability to complete the project. Thus, Notice of Termination of Employment Contractors has been issued on 21st November 2013 with 95% work progress. In order to complete the remaining 5% works, the project was then awarded to Bauran Bina Sdn. Bhd. (BBSB) using a restricted tender [Conventional (Consultant)]. The scope covers Mechanical and Electrical, finishing as well as maintenance works. During the Audit visit in April 2016, BBSB’s work
progress has achieved 63.5% and it is expected to be completed by 30\textsuperscript{th} August 2016.

b. Audit performed between December 2015 to May 2016 revealed that contracts have been signed within the stipulated time; proper advance payment; conformity of Performance Bond and Insurance with contract terms. However, there were several weaknesses identified as follows:

i. delay in project completion for more than 7 years (until the audit perform on May 2016);

ii. Extension of Time (EOT) for first contract was approved 7 months after the original completion date;

iii. project costs for second contract have increased inappropriately to RM12.88 million (including electricity costs worth RM3.80 million) due to the consultant’s failure in assessing remaining works which had resulted additional scope;

iv. delay in issuing the Final Statement of Determination of the Contractor’s Employment for 1 year and 2 months after the appointment of saviour contractor.

v. construction management was unsatisfactory i.e. unorderly construction procedure, inappropriate design and unsatisfactory work quality; and
vi. ineffective monitoring by PWD, MOHA and the Consultant.

c. To overcome the weaknesses highlighted and to prevent them from recurring in the future, it is recommended that MOHA and PWD to recognise such issues rose in this project as lessons learnt.
PART II
MANAGEMENT OF GOVERNMENT COMPANIES

MINISTRY OF FINANCE MALAYSIA

24. Financial Analysis And Monitoring Of Government Link Companies - Special Purpose Vehicles Companies

a. Section 5 (1) (d) of the Audit Act 1957 empowers the Auditor General to examine, investigate and audit a company registered under the Companies Act 1965, which received grant/loan from the Federal Government and companies in which more than 50% of paid-up capital is held by the Federal or State Government or Government Agencies through a decree issued by His Majesty, the Supreme Head of Malaysia. In accordance with this requirement, the Audit (Accounts Of Companies) Order, P.U. (A) 326 gazetted on 30th October 2013 enables the National Audit Department to conduct audit on the related companies. The Government Investment Companies Division (GIC), Ministry of Finance is accountable to supervise Federal Government's investment in the company under Minister of Finance Incorporated (MOF Inc.). At the end of year 2015, the Federal Government has 63 companies of MOF Inc. and 19 of them have been categorised by GIC as a Special Purpose Vehicles (SPV). These SPV companies are incorporated under the Companies Act 1965, which aims to carry out certain activities on behalf of the Government of
Malaysia and has no managerial component. As at 31st December 2015, 3 out of 19 SPVs have been categorised by GIC as inactive. The Federal Government through MOF Inc. holds a 100% shares in all SPV companies, except for Perwaja Terengganu Sdn. Bhd. whereby 87% of its paid-up capital were held by the Federal Government and the remaining 13% held by the Terengganu Heritage Trust Fund.

b. Audit was carried out by scrutinising records and analysing audited financial statements on SPV companies. Informations from the Federal Government Financial Statements for the year 2012 to 2015 and e-Info services from Companies Commission of Malaysia were also used for analysis.

c. In order to ensure that GIC as the Government's main investment body achieves its objectives and operates more efficiently, it is recommended that GIC to consider the following actions:

i. review and amend (if necessary) the objectives of SPV companies in Memorandum and Article of Association to be in line with companies' mandate; and

ii. establish a set of dedicated guidelines or rules in managing SPV companies for referencing purposes.
MINISTRY OF HUMAN RESOURCE MALAYSIA

25. **Management Of Human Resources Development Berhad**

a. Human Resources Development Berhad [Pembangunan Sumber Manusia Berhad (PSMB)] is a Government agency under the Ministry of Human Resources through the Human Resources Development Act, 2001 (PSMB Act 2001), which has been approved by the Parliament in year 2000. PSMB was established on 17th April 2001 under the Companies Act 1965 as a Company Limited by Guarantee (CLG). The main objective of PSMB is to impose and collect human resource development levy to promote training and development of employees, apprentices and trainees as well as the establishment and administration of the Human Resources Development Fund (HRDF). HRDF was established in 1993 with the aim of developing quality human capital and world-class workforce in achieving a high-income economy based on knowledge and innovation in fulfilling the nation’s aspiration to attain the status of a developed country by year 2020.

b. Audit performed between July to November 2015 revealed that the financial performance of PSMB for the financial year 2013 to 2015 is good. However, there are some weaknesses in the management of the activities and its financial management that needs to be addressed as follows:
i. PSMB’s investment fund manager had failed to achieve the targeted investment income amounting to RM5.84 million;

ii. 3 out of 12 courses under the SBL-Khas Scheme were not conducted;

iii. 320 out of 564 candidates involving 42 employers under the Recognition of Prior Learning (RPL) Scheme have yet to receive certification although fees amounting to RM2.39 million had been received by training providers; and

iv. ineffective monitoring on training providers of 1MGRIP Scheme.

c. In order to ensure the achievement of PSMB’s objectives and to strengthen governance capability of the organisation, it is recommended for PSMB to take the following actions:

i. monitor investments held by the appointed fund managers in gaining expected minimum returns to cover the losses on the redemption of trust funds;

ii. frequent monitoring on activities and training schemes to ensure it is implemented in accordance to stipulated procedures; and

iii. provide a detailed Standard Operating Procedure on the financial management.
CONCLUSION

In general, Ministries/Departments/Government Companies had planned properly 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 were made:

a. National Audit Department conducted the audit based on selected samples and scopes. Therefore, Secretary General of Ministries/Heads of Department/Chief Executive Officers should carry out thorough examination to ascertain whether other programmes/activities/projects have the same weaknesses and thereby take corrective actions and make improvements. In relation to this, other than carrying out 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, effectively in achieving the stated objective.

b. Based on audit observation, 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
reliance on consultants/contractors, no 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 works quality, and cost escalation for programmes/activities/projects. As a result, the Government did not reap best value for money for expenditure incurred for the implementation of programmes/activities/projects. In addition, the objectives of the programmes/activities/projects were not fully achieved and 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 programmes/activities/projects 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. the Ministries/Departments must ensure that projects worth RM50 million and above should comply with the stipulated Value Management Guideline issued by the Economic Planning Unit (EPU), Prime Minister's Department.

iv. the 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 government procurement;
vi. enhance monitoring and enforcement mechanism on projects/programmes/activities to ensure that they are carried out in accordance with its stipulated contract schedule, terms and specifications as well as avoiding any wastages and unattainable planned.

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

vii. 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. Severe actions 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 resulted losses to the Government;

viii. Government companies shall ensure good financial performance, proper and prudent implementation of activities to achieve the set objectives, and their financial management and corporate governance comply with stipulated rules and regulations; and

ix. the Controlling Officers of various Ministries/Departments/Government Companies shall demonstrate high commitments by taking prompt
actions on matters raised by the Auditor General. The Controlling Officers must give a factual report promptly and forward to the Continuation Audit Division to update its status in 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 fast, accurate and integrity work culture. Consequently, The Auditor General"s Report 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

27 October 2016