SYNOPSIS

AUDITOR GENERAL’S REPORT 2009
ON THE ACTIVITIES OF THE MALACCA STATE GOVERNMENT DEPARTMENTS AND AGENCIES AND THE MANAGEMENT OF STATE GOVERNMENT COMPANIES

NATIONAL AUDIT DEPARTMENT
Malaysia
1. Article 106 and 107 of the Federal Constitution and the Audit Act 1957 requires the Auditor General to audit the State Government financial statement as well as its activities and to submit his Report to the His Majesty, the Supreme Head of Malaysia and His Excellency, the Head of State of Malacca. His Majesty will give his Royal assent for the Report to be tabled in Parliament while His Excellency will assent for the report to be tabled in the State Legislative Assembly. To fulfil these responsibilities, the National Audit Department conducted performance audit to evaluate the performance of State Government activities as to whether they were carried out efficiently, prudently and achieve the stipulated targets.

2. My Report on the management of activities of the departments/agencies of the Malacca State Government for the year 2009 is a result of an audit carried in ten departments/agencies namely the management of departmental vehicles in the Chief Minister’s Department and the Public Works Department; management of sand mining and extraction activities and its impact on the environment in the Economic Planning Unit, Alor Gajah District and Land Office, Drainage and Irrigation Department and the Department of Environment; Solid Waste Disposal Management and its impact on the Environment in Malacca Historical City Council; the management of licensing for business premises, hawkers, night markets and municipal stalls in the Alor Gajah and Jasin Municipal Councils and the management of property of the Malacca Islamic Religious Council. Besides this, audit findings on the management of two subsidiary companies i.e. Melaka International Trade Centre Sdn. Bhd. and Putra Specialist Hospital (Melaka) Sdn. Bhd. were also reported.

3. The objectives of this audit is to evaluate whether the programmes/projects were implemented effectively and within the stipulated time frame, the contract specifications and terms and conditions of the agreement were complied with, no wastage and achieve their targets. Overall, the audit revealed that the activities/programmes were not properly implemented by the departments and agencies. Among the weaknesses were lack of control in managing the petrol card resulting in frequent usage of petrol within a short time span and wastage in the purchase of the Automatic Vehicle Location System as they were not utilised. The sand mining and extraction activities at Pulau Sebang, District of Alor Gajah was not satisfactorily managed as terms and conditions were not adhered thus affecting the stability of the river bank and regime and the quality of water. In the solid waste management, lack of monitoring by the Malacca Historical City Council has caused landfills not properly managed and poor collection services. Licensing of business premises and others was satisfactorily managed, however there were some weakness such as implementation of by-laws not properly carried out, premises still not occupied, premises
operating without licence and no follow-up actions on compounds issued. The property of the Malacca Islamic Religious Council was badly managed. The failure in the joint venture project showed the management inefficiency which brought losses to the Council while there was poor monitoring on the wakaf and Baitulmal land. Weaknesses were observed in the management of the State Government companies i.e. Melaka International Trade Centre Sdn. Bhd.(MITC) and Putra Specialist Hospital (Melaka) Sdn. Bhd. (PSHM) where expenditure exceeded income thus causing serious cash flow problems. Although the revenue of PSHM increased every year, the outstanding patient bills also increased accordingly. There was no specific discount rate on the medical bills. The two companies were unable to pay rent due to financial constraints and to-date the rental in arrears was very high. MITC and PSHM paid bonuses when they recorded losses and the bonus were not submitted to the State Authority for approval.

4. All Controlling Officers were informed of the matters reported to obtain their confirmations. This Report also includes the current status of the matters raised in my 2008 Report to give an extent of the follow-up and corrective actions taken by the departments/agencies with respect to the issues raised. Generally, the departments/agencies have taken corrective actions on those weaknesses.

5. Besides fulfilling the legislative requirements, I hope this Report will be a basis for remedial actions and to enhance the accountability and integrity of the departments/agencies. This Report is also vital for addressing the economic crisis and to act as a mechanism for the public service to transform all performance and public policies such as to ensure conservation and sustainable management of resources, reducing the digital gap between urban and rural areas, providing quality service to society, eradicating poverty, restructuring the Malaysian society, increasing the nation’s economic activities, strengthening the family institutions and to provide proper facilities. Indirectly, this will contribute to the Government Transformation Programme with its slogan “People First, Performance Now” hereby fulfilling the needs, interests and aspirations of all Malaysians.

6. I would like to express my gratitude to all officers in the various departments and agencies who have given their full cooperation to my officers during the audit. I would also like to extend my appreciation and thanks to my officers who have worked diligently and their commitment to complete this Report.

(TAN SRI DATO’ SETIA AMBRIN BIN BUANG)
Auditor General of Malaysia

Putrajaya
1 July 2010
PART I - ACTIVITIES OF DEPARTMENTS/AGENCIES

1. Chief Minister’s Department and Public Works Department, Malacca – The Management of Departmental Vehicles

The Chief Minister’s Department, Malacca (CMD) spent RM2.47 million for the procurement of 17 new vehicles in 2006 to 2009, whereas the Public Works Department, Malacca (PWD) spent RM2.29 million for the procurement of 20 new vehicles during the same time period. Overall, the vehicles in CMD were not properly managed and the weaknesses resulted in losses to the State Government and wastages of the public fund. Some weaknesses that need urgent address were the lack of control in managing the petrol card resulting in frequent usage of petrol within a short time span. The high maintenance cost exceeded the procurement price of the vehicles by 143% to 281% during the five year period from the acquisition date. The Automatic Vehicle Location System costing RM96,350 were purchased but not utilised resulting in wastage. The management of vehicles in PWD was satisfactory except for the delay in the disposal of assets to pave way for replacement of new vehicles.

2. Economic Planning Unit, Malacca; District and Land Office, Alor Gajah; Drainage and Irrigation Department and Department of Environment – The Management of Sand Mining and Extraction Activities and Its Impact on the Environment

The project to deepen and widen Sungai Batang Tampin River, Pulau Sebang Sub-District, Alor Gajah District was approved by the State Privatization Committee in April 2008. The project valued at RM12.75 million was awarded to a company with a completion time of two years involving 13.35 kilometres from Pengkalan to Pulau Sebang. In return, the company can extract the sand and is also required to build the river bank, flood level indicator and landscaping. Overall, this project is not satisfactorily managed and the stability of the river bank and regime as well as the quality of water was affected. Among the weaknesses identified were delays in the preparation of agreement document, violation to the Environmental Quality Act related to sand extraction and failure of the State Economic Planning Unit to take action against the company for not complying with the criteria as prescribed by the Drainage and Irrigation Department (DID) and the Department of Environment (DOE). Delay in the preparation of the agreement has allowed the company to commence operation for 8 months without any permit. The government department responsible was not stated clearly in the agreement and the project specifications were not prepared by the company thus affecting the implementation of the project. The company also failed to comply with DID requirement to conduct and prepare hydraulic and hydrology
studies before sand can be extracted. Widening of the river and the river slope has exceeded the limit stipulated by DID.

3. **Malacca Historical City Council – Solid Waste Disposal Management and Its Impact on the Environment**

   Solid waste management service for the administrative area under the Malacca Historical City Council (MBMB) was privatised to Southern Waste Management Sdn. Bhd. (SWM) in December 1998. The objective of the privatisation is to improve the efficiency of cleaning services and solid waste disposal in tandem with the rapid development. An area covering 25.56 hectares in Krubong Sub-District was allotted for the disposal of solid waste under the administration of MBMB. The solid waste disposal contract between MBMB and SWM amounted to RM68.61 million was for a three-year period from 2007 to 2009. Overall, the solid waste disposal managed by MBMB can be further enhanced as the landfill is not properly managed. Among the weaknesses observed were in respect of solid waste and landfill management as well as failure to produce reports required by the Department of Environment. The number of solid waste bins supplied did not tally with the stipulated amount in the agreement. No ridge and drain was built to prevent the overflow of leachate into the neighbouring rivers and no treatment to the leachate was undertaken at the landfills due to lack of procedures and monitoring by MBMB. The washing bay was not properly used and the improper compaction of waste in the landfill resulted in air pollution.


   The Department of Licensing and Public Health under the Municipality Council Alor Gajah (AGMC) is responsible for the issuance of licence for business, hawker, night markets and municipal stalls while in the Jasin Municipality Council (JMC), this responsibility lies with the Department of Business Control and Town Service. During 2006 to 2008, revenue collected through licensing by AGMC amounted to RM3.04 million while JMC collected RM1.82 million and the annual increase was less than 8%. Overall, the management of licensing for both municipalities was satisfactory. However, among the weaknesses observed were implementation of the by-laws was not properly carried out, premises not occupied, premises operating without licence and no follow-up actions on compounds issued. In AGMC, licences gazetted since nine years ago were not enforced as no approval was obtained from the State Authority due to public interest. Meanwhile, changes in the licence rate without gazetting resulted in the public having to pay more than the approved rate. In both municipalities there are premises which are not rented and left vacant with no maintenance at all. In AGMC, there are lodging houses operating without licences as the building plans were not approved thus a risk to the public should there be any calamity. In
JMC, it was observed that a sand mine commenced operations before permit was issued due to lack of coordination in the District and Land Office who is responsible for the issuance of rock extraction permit. The prohibition to carrying out illegal businesses such as selling pirated CD/VCD/DVD was not included as one of the conditions in the issuance of licence for the purpose of enforcement.


The Malacca Islamic Religious Council (Council) is responsible to ensure *Wakaf* and *Baitulmal* properties are vested under the name of Council in accordance with powers under Section 77 and 78 of the Administration of Islamic Religion (Malacca State) Enactment, Year 2002. The overall management of the property by the Council was not satisfactory as losses were incurred and there was no proper procedures on property management. Some of the weaknesses observed were the development of land by the Council through joint ventures, upgrading project of the Al Azim Complex, property management procedures, record keeping and monitoring of Council properties. The joint venture project with Regal Merger Sdn. Bhd. (RMSB) was not successful as RMSB did not comply with the terms of the agreement such as building the Council Complex upon the expiry of the agreement in June 2004. The Council, henceforth had to advance *zakat* monies amounted to RM13.85 million for the construction of the Complex. In addition, due to negligence of the Council, properties were sold to a third party by RMSB even though the joint venture agreement was cancelled. Meanwhile, the upgrading of the Islamic Religious Department, Malacca was financed through advances from *Baitulmal* amounting to RM1.80 million. Lack of periodic and continuous monitoring by the Council has resulted in late registration of *wakaf* land, encroachment of *Baitulmal* land and also unable to locate *wakaf* land.

**PART II – THE MANAGEMENT OF STATE GOVERNMENT COMPANIES**


Melaka International Trade Centre Sdn. Bhd. (MITC) is fully-owned by the Malacca State Development Corporation (MSDC) with a paid-up capital of RM1 million and has commenced operations since 2003. The MITC’s objective is to provide venues for conference, convention, business and serves as the largest exhibition centre in Malacca. The activities carried out in this centre are consumer exhibitions, international tourism centres, conferences of rulers, international investment exhibitions, seminars and conventions centres. MITC recorded losses for two consecutive years i.e. in 2007 and 2008 while registering a profit in 2009. Overall, the management of MITC was not satisfactory. Among the weaknesses observed were MITC was unable to meet its financial obligations such as repayments of loan, advances and rental to MSDC. Besides this, MITC only managed to repay RM0.17 million to MSDC and the balance still outstanding stood at
RM6.99 million as at January 2009. Besides this, MITC was not able to carry out minor maintenance works on the Centre due to financial constraints. The closed circuit television system failed to function because of its high maintenance costs. Even though MITC suffered losses, bonus payment was made without prior approval from the State Authority.


The Putra Specialist Hospital (Melaka) Sdn. Bhd. (PSHM) is a State Government company under the Chief Minister Incorporated with shareholding of RM18.68 million (70.5%). PSHM’s objective is to offer all types of medical treatment. PSHM recorded profits in 2007 and 2009 but suffered losses in 2008. Overall, the management of PSHM is not satisfactory. Among the weaknesses, PSHM was unable to meet its financial obligations such as rental payment to the Malacca Trust Fund (MTF) according to schedule and as at 31 December 2009 the total rental outstanding, including advances and penalties, amounted to RM29.77 million. However, as at 30 June 2010, PSHM paid advances totalling RM7.51 million to MTF. The outstanding patient bills were increasing and as at 31 December 2009, they amounted to RM14.50 million. The medical claims from patients covered by insurance were higher than the amount insured. There was no specific discount rate on the medical bills. Procurement procedures on tenders and quotations were not complied, delays in the payment to suppliers and there was also doubts on the commission paid to debt collectors. It was observed that PSHM did not propose any dividend when it recorded profit but paid bonus totalling RM0.50 million in 2008 when it suffered losses. In 2009, PSHM paid bonus totalling RM0.80 million even before the financial statement were prepared.