AUDITOR GENERAL’S REPORT 2011
ON THE AUDIT OF FINANCIAL MANAGEMENT AND ACTIVITIES OF FEDERAL STATUTORY BODIES AND MANAGEMENT OF SUBSIDIARY COMPANIES

NATIONAL AUDIT DEPARTMENT MALAYSIA
AUDITOR GENERAL’S REPORT 2011

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NATIONAL AUDIT DEPARTMENT
MALAYSIA
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PREFACE
1. Article 106 and 107 of the Federal Constitution and the Audit Act 1957, requires the Auditor General to audit the financial statements, financial management, the activities of Ministries/Departments/Agencies as well as management of Federal Government companies and to submit his Report to His Majesty for his Royal assent and for the Report to be tabled in Parliament. To fulfil these responsibilities, the National Audit Department has carried out 4 types of audits as follows:

1.1 **Attestation Audits** – to give an opinion as to whether the financial statements of the Federal Statutory Bodies for the year concerned show a true and fair view and its accounting records have been properly maintained and updated accordingly.

1.2 **Financial Management Audits** – to determine whether the financial management at the Federal Statutory Bodies have been carried out in accordance with relevant laws and financial regulations.

1.3 **Performance Audits** – to ascertain whether the activities of the Federal Statutory Bodies have been implemented efficiently, prudently and achieved its desired objectives.

1.4 **Management Audits Of Federal Government Companies** – to evaluate whether the management of subsidiary companies of the Federal Statutory Bodies have been implemented properly.

2. The report on the audit of the financial statements of Federal Statutory Bodies is reported in the Certification of the Financial Statements and Financial Performance Report whereas financial management and performance audits on the implementation of activities of the Federal Statutory Bodies as well as the management of subsidiary companies are reported in this Report. The Report on the Certification of the Financial Statements and Financial Performance can only be prepared after all the Federal Statutory Bodies’ financial statements have been submitted for audit and the Audit Certificates have been issued. This report on the financial management and activities of Federal Statutory Bodies and the management of Subsidiary Companies for the year 2011 comprises of 5 parts as follows:

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3. The National Audit Department has implemented the star rating based on the Accountability Index beginning 2007. Federal Statutory Bodies which were selected on a rotation basis will be evaluated objectively on its level of financial management based on measurable criteria. Federal Statutory Bodies rated as excellent can be a role model to others. The audit based on the Accountability Index is in line with the transformation of Malaysian Public Service in strengthening financial management of government agencies through prudent expenditure and increasing positive perception of the public. In year 2011, the implementation of the star rating system is based on 8 financial management control elements. Thirty-five out of 41 Federal Statutory Bodies were rated whereas 6 others were not rated because they were either small or newly established and several of the financial management control elements were not applicable to them.

4. Section 6(d) of the Audit Act 1957 requires the Auditor General to conduct audit to determine whether activities of Federal Statutory Bodies were managed efficiently, prudently and in line with its objectives. The Audit consists of various activities such as management of grants, procurement, construction, maintenance, loans management, enforcement, investment management, assets management and enhancement of social economic activities. This Report contains matters observed from the audits carried out on 23 projects/activities.

5. Generally, there were weaknesses such as improper payments, works/supplies did not adhere to specifications or were of lower quality, unreasonable delays, wastages, weaknesses in the management of revenue and assets. These weaknesses were caused by negligence in complying with regulations and Government procedures; lack of meticulous planning on projects/activities and in determining the scope and specifications of tenders; lack of close and effective monitoring on works of contractors’ consultants/suppliers; lack of expertise in the management of projects; delays in decision making on procurement; agencies’ information system were incomplete and not up-dated; low priority given to the outcome/impact of projects/activities and insufficient allocations for the maintenance of assets.

6. Besides this, the audit was also carried out on companies which the government owned more than 50% equity. The audit was conducted to ascertain whether the management of activities, corporate governance and financial management have been carried out effectively, prudently and in accordance with established objectives. Analysis
was also carried out on the financial performance of subsidiary companies. This report includes analysis on the financial performance for 68 subsidiary companies and 50 sub-subsidiary companies of Federal Statutory Bodies based on financial statements for the years 2006 until 2010. Matters observed from the audit on analysis of financial performance, management of activities, corporate governance and financial management for 16 subsidiary companies were also reported.

7. The National Audit Department has submitted 81 recommendations to assist Federal Statutory Bodies and their subsidiary companies to rectify its weaknesses raised in the Auditor General’s Report for the year 2010. Follow-up audits as at 1 April 2012 revealed that the respective Federal Statutory Bodies and subsidiary companies have taken actions on 47 (58%) of the recommendations whereas the other 34 (42%) recommendations revealed either actions are being undertaken or no action has been taken. In the Auditor General’s Report for the year 2011, a total of 97 recommendations were forwarded to Federal Statutory Bodies and subsidiary companies for rectifications to ensure the same weaknesses will not recur. This Department will continuously monitor to ensure appropriate actions are taken by the respective parties on these recommendations.

8. All matters to be reported have been brought to the attention of the respective Chief Executive Officer of the Federal Statutory Bodies and subsidiary companies. The feedbacks received have been taken into consideration in finalising this Report.

9. I wish to record my thanks to all the officers in the Federal Statutory Bodies and subsidiary companies who have given their cooperation to my officers during the audit. I also wish to express my appreciation and thanks to my officers who have worked diligently and have given their total commitment to complete this Report.

(TAN SRI DATO' SETIA HAJI AMBRIN BIN BUANG)
Auditor General Malaysia

Putrajaya
26 July 2012
INTRODUCTION
INTRODUCTION

1. According to the Statutory Bodies (Accounts and Annual Reports) Act 1980, a Statutory Body is an association which is incorporated in accordance with Federal legislation. A Statutory Body is a body corporate or an agency of the Government of Malaysia that is incorporated by its own incorporation Act for the purpose of the Federal Government but does not include a local authority or a corporation that is incorporated under the Companies Act 1965.

2. The Federal Statutory Body is established to carry out Government policies through the implementation of programmes and activities which have been determined in a professional and effective manner. Every Statutory Body is subjected to their own incorporation Act or subsidiary incorporation legislation which sets out the purpose and specific powers of autonomy and it shall function according to its objectives. However, a Board of Directors should be established to implement its functions, administration, management and activities. The Board of Directors is authorised to make decisions on administration and management of Federal Statutory Bodies. The Board of Directors shall consist of members such as a representative from the Ministry of Finance, a government officer and corporate members who have relevant expertise in the Statutory Body's activities. The appointment and termination of board members is under the jurisdiction of the Minister. Each Federal Statutory Body is placed under a Minister in charge as required by the incorporation legislation or by the Ministerial Functions Act 1969 (Act 2) amended of 1999. The jurisdiction of the Federal Statutory Body includes the power to borrow, lend, invest, set up a subsidiary company, managing funds and trust accounts, and implementing programmes and activities subject to its own legislation. A number of Federal Statutory Bodies are dependent on government grants to carry out their activities while others finance their operations with their own funds.

3. In terms of financial management, the Federal Statutory Body may have its own financial regulations, systems and procedures and its own accounting policies which is in accordance with generally accepted accounting principles. All Federal Statutory Body shall prepare Financial Statements on an accrual basis for each financial year. According to the Statutory Bodies (Accounts and Annual Reports) Act 1980 (Act 240), the Federal Statutory Bodies shall, within six months after the end of the financial year submit the Financial Statements to the Auditor General for audit. The said Act also provides that the audit of the Financial Statements of the Federal Statutory Body is subjected to the Audit Act 1957. The Federal Statutory Body shall, in respect of each financial year and within one month after the receipt of its audited Financial Statements
and the Auditor General’s Report, submit to the Minister together with a report of its activities. The Minister shall as soon as may be practicable on receipt of the audited Financial Statements cause it to be tabled in Parliament.

4. As at the end of year 2011, a total of 124 Federal Statutory Bodies were established to perform such functions as stated in its incorporation. List of Statutory Bodies and Federal Statutory Funds as in Appendix A.
SYNOPSIS
PART I
- FINANCIAL MANAGEMENT OF FEDERAL STATUTORY BODIES

1.1 In the year 2011 the National Audit Department carried out financial management audit at 41 Federal Statutory Bodies (BBP) to ascertain whether financial management at these Federal Statutory Bodies were being managed according to prescribed laws and financial regulations. This audit is based on a 3-years rotation except for the Federal Territory Islamic Religious Council whereby the audit is conducted annually. However, only 35 BBP are rated while the remaining 6 others were not rated because several of the financial management control elements were not applicable to them.

1.2 The main focus of the financial management audit in 2011 were the BBP under the supervision of the Ministry of Agriculture and Agro-Based Industry, Ministry of Rural and Regional Development and Ministry of Transport. The audit was conducted by verifying records and financial documents for the year 2011 at the Headquarters level of the BBP. In addition, the financial statements of the BBP for the year ended 2010 were also verified to determine the financial performance of the BBP as a whole.

1.3 The implementation of the Accountability Index rating system covers 8 major financial management controls namely management control, budgetary control, revenue control, expenditure control, management of trust funds and deposits, assets and stores management, management of investments, management of loans and submission of Financial Statements. The results of the rating carried out on the financial management for the year 2011 for the 35 BBP showed that 4 or 11.4% of BBP were at excellent level while 28 or 80% of the BBP were good and 3 or 8.6% of the BBP were satisfactory. As compared with the financial management audit in 2008/2009 for the same agencies none attained excellent level, 32 or 94% were good and 2 or 6% were satisfactory and an agency was rated for the first time.

PART II
- MANAGEMENT OF FEDERAL STATUTORY BODIES ACTIVITIES

INTRODUCTION

In addition to attestation audit, the National Audit Department is required to audit federal statutory bodies’ activities to ascertain that they were implemented efficiently, effectively and prudently in line with prescribed objectives. In the year 2011, a total of 23 activities
were selected for audit, whereby 21 activities were reported in detail whereas the other 2 activities were reported in summary form.

1. INSTITUTE OF LANGUAGE AND LITERATURE
   - Management Of The Privatisation Of School Textbooks And General Publications

   a. A concession agreement on the privatisation of pre-printing activity, design, editing, printing and publication was signed between Institute of Language and Literature (DBP) and the concessionaire on 19 June 2002. The concession period is for duration of 12 years beginning 1 September 2002 until 31 August 2014. A total of RM473.55 million was paid to this company until year 2011, for printing as well as distribution of loan scheme textbooks to all schools in the country. In addition to the printing of textbooks, the concessionaire is also responsible for the printing of general publications like DBP magazines, novels and religious books. Based on the concession agreement, 20% of sales value of general publications has to be paid to DBP whereas 80% to the company. An Audit carried out in October and November 2011 revealed several weaknesses in the management of textbooks privatisation by DBP.

   b. Among the weaknesses were:

   i. Weak financial performance of the concessionaire due to debt burden and insufficient capital resulted in the discontinuity of printing and distribution of textbooks.
   ii. DBP did not receive annual fee payment for every quarter from January until September 2010 totalling RM3.06 million.
   iii. Delays in textbooks distribution by the concession company resulted in DBP being fined RM2.36 million by the Ministry of Education for the years 2003 until 2008.
   iv. The concessionaire did not publish the general publications based on the agreement resulted in DBP unable to receive the stipulated minimum fee.
   v. The concessionaire was not able to continue its obligations to print and distribute textbooks for usage in 2012 due to critical financial difficulties.
   vi. Failure of the concessionaire to fulfil its obligations compelled DBP to take over all printing and distribution activities involving school textbooks.

   c. Audit recommended that DBP to implement the following:

   i. DBP should strengthen the clauses in the privatisation agreement with the takeover company to ensure weaknesses in the previous agreement are addressed and will do not recur so that the Government's interests are safe guarded.
ii. DBP should monitor the management of the concessionaire including its financial performance to ensure the company is capable of continuing its printing and distribution of school textbooks so as not to affect students’ education.

iii. DBP should keep the manuscript blue print and ensure that DBP is the intellectual property owner.

2. LABUAN CORPORATION
   - Management Of Halal Hub Development Project

a. The Halal Hub Development Project which began in 2007 was implemented through 3 clusters with a total cost of RM63.46 million on 18.08 acres of land in Kiamsam, Federal Territory of Labuan. Cluster 1 comprised the development of Halal Traceability & Tracking System (HTTS) and Cluster 2 was the Strategic Business Plan Study. Cluster 3 consists of Phase 1 and Phase 2 physical and infrastructure development of the project. An audit carried out in November 2011 until February 2012 revealed several weaknesses in the management of Halal Hub Development Project.

b. Some of the weaknesses were as follows:

   i. The project was not completed on schedule and there were delays of 9 and 11 months.
   ii. The Halal Hub building was completed on 15 December 2010 but is still not operational.
   iii. The subsidiary company Labuan Halal Hub Pte. Limited was only incorporated on 11 November 2011.
   iv. The Halal Hub building was not rented out even though an entrepreneur in the seafood product industry based in Labuan proposed to rent the building.
   v. There is a delay in the completion of HTTS and it is still not used to trace and track halal in the processing of food products.
   vi. The construction quality of Halal Hub building Phase 1 was not satisfactory and did not meet the required specifications.
   vii. There was a delay in signing of agreement for the appointment of contractor and consultant by 6 and 13 months.
   viii. Project performance and problems in the Halal Hub Development Project were not brought to the attention of the Board of Directors.

c. Audit recommended that Labuan Corporation takes the following actions:

   i. To appoint qualified company directors and high ranking managers with vast experience in the business sector so that the company can operate
efficiently. This is to ensure the halal hub development project can commence operations and achieve its objectives.

ii. To rent out the Halal Hub building as soon as possible while waiting for its subsidiary company, Labuan Halal Hub Pte. Limited to operate.

iii. To ensure agreements are signed on time so as to safeguard the interests of Labuan Corporation.

iv. To monitor the work of the contractor and consultant to ensure they are carried out according to specifications, of quality and completed within the stipulated time.

v. To review the usage of HTTS software and equipment supplied to the pilot users’ premises.

vi. To ensure all defects, damages and works which are not in accordance with specifications are rectified immediately before the end of the defects liability period.

vii. To submit the project performance report to the Board of Directors on a regular basis for their attention and problem solving.

3. NATIONAL UNIVERSITY OF MALAYSIA
   - Management Of Linen And Laundry Services In The Medical Centre

a. National University of Malaysia Medical Centre (PPUKM) has privatised the management of linen and laundry services to improve its hospital services. The Contract for the supply of linen and laundry services in PPUKM was given to a company (contractor) for a period of 2 years beginning 1 June 2007 until 31 May 2009. This contract was extended on 1 October 2010 until 30 September 2012 at a cost of RM12.24 million. As at October 2011, PPUKM has made 11 payments totalling RM4.28 million on contractor’s claims for the supply of 1.27 million kilograms of clean linen to users’ departments. An Audit carried out in October 2011 until January 2012 revealed several weaknesses in the management of linen and laundry services in PPUKM.

b. Some of the weaknesses were as follows:

i. The contractor was only able to supply 20,292 pieces or 25.1 percent of the minimum contract requirement at the beginning of the contract.

ii. Physical checks on 10 types of linen showed that the linen supplied did not meet the quality stipulated in the contract.

iii. Condition of the store where clean linen is kept was dirty and covered with dust. The clean linen was not arranged on racks causing the clean linen to be dirty and contaminated.

iv. Calculation of owing was based on previous linen par level issued in 2009 which resulted inaccurate calculations of owing.
v. Weight calculation of clean linen was based on pro-rated weight attained in February 2010 resulted in RM19,749 being overpaid to the contractor for the month of August 2011.

c. Audit recommended that PPUKM should undertake the following measures:

   i. To review all linen par level fixed by PPUKM so that there is adequate supply of linen and to prevent additional purchases.
   ii. To carry out checks on all linen to ensure the contractor replaces low quality and unsuitable linen for users’ comfort and deter from tarnishing PPUKM’s image.
   iii. To ensure the contractor maintain a proper and clean linen store as well as prepare and maintain complete and updated linen records.
   iv. Delivery of linen based on par level, calculation of owing and weight measurements should be in accordance with agreement to ensure payments to contractor are based on the accurate rates.

4. CONSTRUCTION INDUSTRY DEVELOPMENT BOARD - Management of Levy On Construction Projects

   a. The Construction Industry Development Board (CIDB) is authorised by Act 520 to collect levy from contractors whose construction works exceed RM500,000. Before 21 May 2003, the levy rate was fixed at 0.25% on the contract sum. The rate was reduced to 0.125% after 21 May 2003 for contracts awarded on or after the date. An Audit carried out in October until December 2011 revealed several weaknesses in the management of levy imposed on construction projects.

   b. Among the weaknesses observed were:

   i. Levy on contractors were not imposed on 5 out of 33 or 15.2 percent of the projects examined. The total value of the 33 contracts was RM9.51 million.
   ii. Levy with negative balances totalling RM1.14 million were not returned to contractors or forwarded to the Accountant General.
   iii. Disciplinary reports on contractors were not prepared although the show cause notices have lapsed. There were delays in initiating legal actions against contractors who defaulted in payment.
   iv. There are internal control weaknesses in Levy Module in the Integrated Information System.
c. Audit recommended that CIDB should undertake the following measures:

i. To co-operate with Ministry of Housing & Local Government and local authorities to ensure all construction projects liable for levy are forwarded to CIDB for further actions.

ii. To monitor effectively the issue of reminders and justifications notices to contractors who fail to pay the levy to prevent cases of late collections and failure to collect levy.

iii. To ensure effective monitoring on late preparation of disciplinary reports on contractors who fail to pay their levy within the stipulated time. This will reduce arrears in levy collections and also ensure prompt actions against contractors who defaulted in payment.

iv. To ascertain the weaknesses in Levy sub-modules of the Integrated Information System and ensure improvements are made on the system so that information from the system are correct, complete and the data generated are accurate and undisputable.

5. MALAYSIAN RUBBER BOARD
   - Management Of The Development Of Advanced Materials And Value Added Products Programme

a. Malaysian Rubber Board (LGM) has implemented the Development of Advanced Materials and Value Added Products Programme under the Ninth Malaysia Plan (9MP) for the period 2006 to 2011. This programme consists of three sub programmes namely The Advanced Materials Programme, The Testing Laboratory and Research and Development Programme and The Value Added Product Programme. LGM has allocated RM32.47 million for this programme. A sum of RM8.92 million has been allocated to The Value Added Products Programme, RM10.42 million to The Advanced Materials Programme and RM13.13 million to The Testing Laboratory and Research and Development Programme. An Audit conducted in November 2011 until February 2012 revealed several weaknesses.

b. Among the weaknesses observed were:

i. The transfer of technology between Malaysian Rubber Board and a Bumiputera company was not fully achieved.

ii. Equipment purchased had not been utilised due to a delay in the completion of the latex processing factory.

iii. Equipment purchased had not been put to use because the need for research has not arise.

iv. Equipment purchased had not been fully utilised because machine components to produce a product had not been bought.
c. Audit recommended that LGM takes the following actions:

i. To prepare a thorough and comprehensive plan for infrastructure development and purchase of equipment so that the objectives of the programme can be implemented efficiently and effectively.

ii. The terms and conditions of the Agreement must be vetted thoroughly by taking into account all the essential conditions to ensure the interests of both parties are protected. This is to ensure that all parties comply with the conditions of the agreement so that the programme can be implemented as planned.

iii. To prepare thorough equipment procurement plan so that equipment purchased can be fully utilised and meet the procurement objectives.

iv. Procurement procedures such as preparation of tender documents must be adhered to so that procurement can be implemented efficiently and effectively.

6. MALAYSIAN CO-OPERATIVE SOCIETIES COMMISSION
- Management Of Grants To Cooperatives

a. Malaysian Co-operatives Societies Commission (SKM) provides grants to cooperatives for physical infrastructure facilities, systems development and as a matching grant for business start-ups and also strengthening co-operatives activities in the business sectors such as manufacturing, agriculture, construction and services. In the year 2011, a sum of RM7.31 million was allocated by the Ministry of Domestic Trade, Co-operatives and Consumerism to SKM for cooperatives’ grant. SKM also utilised a sum of RM14.75 million from the Co-operative Development Trust Fund as an additional grant to the co-operatives. An audit conducted from October 2011 to January 2012 revealed several weaknesses.

b. Among the weaknesses noted were:

i. There was no approval from the Ministry of Finance for the direct appointment of consultants and suppliers under Retail Shop Transformation (TUKAR) programme.

ii. The cooperatives had not received the equipment even though payment had already been made.

iii. The co-operatives were made to incur service charge without proper approval/authorization.

iv. Authorisation and payment for works done were made without a purchase order or a detail invoice.

v. There is no agreement signed between SKM and the consultant.
vi. Basic Grant as well as Enhancement and Consolidation Grant given to the co-operatives had not been utilised.

vii. There was no confirmation made by SKM for the reimbursement of operating grant by ANGKASA.

c. Audit recommended that SKM should take the following actions:

i. The appointment of consultants and suppliers should be based on prescribed procurement procedures. A written approval for any exemption from these regulations should be obtained from the Federal Treasury.

ii. An agreement which outlines the responsibilities of SKM and the consultants and the value of the equipment to be supplied under the TUKAR programme should be signed between the 2 parties.

iii. To ensure all co-operatives have received all the equipment before any payment is made. All payments can only be made when all supporting documents have been submitted.

iv. To review the consultant’s fees on co-operatives that received the grants.

v. To monitor the performance and achievements of co-operatives which received grants in order to assess whether the objective of the grant had been met.

7. PUTRAJAYA CORPORATION
   - Parks Management

a. Putrajaya Corporation has developed 10 central parks costing RM744.93 million as at December 2011. The construction of these parks served as education, research and tourism centres and each park has been equipped with suitable facilities. An Audit carried out in November till December 2011 revealed several weaknesses in the management of these parks.

b. Some of the weaknesses observed were:

i. Promotion activities were not extensively carried out in all the 9 parks.

ii. Equipment for interactive exhibition in the Interpretive Visitors Centre of Botanical Park valued at RM3.96 million were not functioning.

iii. Maintenance machinery and equipment valued at RM1.85 million were included in the costing of maintenance agreement.

iv. Security control by a private company was not satisfactory causing many incidents of loss of assets and park facilities.
c. Audit recommended that PPj should undertake the following measures:

i. To formulate a comprehensive promotion and marketing strategy through various channels to attract local and foreign visitors to Putrajaya parks.

ii. To revise the cost of park maintenance agreement including cost of machinery and equipment used for maintenance works, as well as take into consideration the appointment of contractors who can provide complete and adequate machinery and equipment.

iii. To review and take immediate actions on weaknesses pertaining to security aspects in order to ensure assets and facilities are safeguarded and also the safety of visitors.

iv. To take immediate actions on damaged assets and facilities within the park area for the benefit of visitors.

v. To take follow up actions on replacing lost assets with the security control company so that all assets and facilities in Putrajaya parks are in good conditions and properly maintained for the benefit of visitors.

8. MARA TECHNOLOGY UNIVERSITY
   - Management Of Scholarships For Young Lecturers

a. Scholarships for young lecturers were introduced in 1989 for the purpose of upgrading the qualifications and skills of MARA Technology University (UiTM) academic staff. In the year 2002, UiTM set a ratio of 1 lecturer to 15 students to enhance the quality of teaching and education. The scholarship programme included pre-services assistance payment to qualified Bumiputera students. Students who completed their course studies will be offered as lecturers within the time stipulated in the agreement with UiTM. Overall, UiTM has allocated a total sum of RM119.76 million in respect of scholarships for young lecturers and has expended a sum of RM104.03 million. An Audit carried out in November 2011 till January 2012 revealed several weaknesses in the management of scholarships for young lecturers.

b. Some of the weaknesses observed were:

i. The appointment of 12 temporary lecturers who have not completed their courses gave an impact on the financial allocations of UiTM.

ii. The appointment of 15 temporary lecturers who had exceeded the duration of studies as stipulated in the agreement.

iii. A total of 15 temporary lecturers were appointed without any indication they have completed their courses. This contradicts with the procedures on the appointment of temporary lecturers.
iv. The work procedures on the management of scholarship for young lecturers were not properly drawn out. As such, scholarship was not managed efficiently.

v. Salary were paid to a lecturer whose appointment had been terminated causing UiTM to incur a loss of RM193,066 including claims for breach of young lecturers scholarship agreement.

vi. No action was taken against breach of contract and UiTM has to incur additional expenditures for litigation proceedings.

vii. There was no strategic plan for young lecturers scholarship scheme which resulted in no comprehensive planning for this programme.

viii. There were no effective monitoring on the management of young lecturers scholarship awards.

c. Audit recommended UiTM to implement the following measures:

i. UiTM should ensure every young lecturers scholarship holders comply with the terms and conditions stipulated in the agreement in order to safeguard its interests. Besides this, UiTM should monitor and ensure each and every young lecturers scholarship holder completed their studies.

ii. Procedures on the appointment of temporary lecturers should adhere to the conditions in the agreement so that the appointment process is transparent.

iii. To prepare guidelines and detail work procedures for managing young lecturers scholarship and breach of contract cases.

iv. To formalise a strategic plan on young lecturers scholarship award programme in order to ensure a comprehensive plan for this programme.

v. To prepare a master register for young lecturers scholarship holders containing details of recipients’ names, date of receipt, amount received, course level, date of reporting duty, date of breach of agreement (if any) and course status.

9. MARA TECHNOLOGY UNIVERSITY  
- Management Of The Students' Financial System

a. The Financial Accounting Integrated System (FAIS) is UiTM’s integrated accounting information system which was developed in 1992 to assist the management in processing and obtaining financial information and financial management. The Students' Financial Systems is one of the 23 modules in FAIS which include bill generation and the distribution of revenue to the faculties and the state campuses. A total of RM7 million have been spent to develop FAIS since 1993 and an additional cost of RM535,000 was spent from 1997 until 2010 to further enhance the Students' Financial System. The audit
conducted between March and June 2011 revealed several weaknesses in the management of the Students’ Financial System.

b. Among the weaknesses were:

i. The Strategic Plan for Information Technology for the period 2011 to 2015 and the Information Technology Security Policy were not drawn up.

ii. The Students’ Financial System specification documents are incomplete and not updated.

iii. There was a significant increase in outstanding student bills in the year 2010 which was due to the generation of duplicated bills and issuance of bills to students who were categorised as inactive.

iv. Discrepancies in student billing information between the website and the Student Financial System were observed as automatic reconciliation of information has not been implemented.

v. The physical and environmental controls at Perindu Data Centre, FAIS Data Centre and Disaster Recovery Centre are unsatisfactory.

vi. FAIS Consumer Policy and ICT Usage Guidelines password size does not comply with MAMPU’s Information Technology Instructions.

vii. The Disaster Recovery Plan for the entire system does not meet the requirements of MyMIS.

c. Audit recommended that UiTM takes the following actions:

i. The Strategic Plan for Information Technology for the period 2011 to 2015 which includes all systems in UiTM should be developed to enable the direction, strategies and ICT plans of UiTM be implemented.

ii. The environmental conditions in the Perindu Data Centre, FAIS Data Centre and Disaster Recovery Centre should be upgraded to ensure security of ICT infrastructure and financial data.

iii. UiTM should ensure integration between the Student Information Management System and Student Financial System to avoid discrepancies in the information.

iv. Complete and updated documentation should be provided for each system to ensure operational continuity in the event of retirement or turnover of key personnel.

10. NATIONAL VISUAL ARTS DEVELOPMENT BOARD
    - Management Of Permanent Collections

a. Permanent Collections refers to works of arts and object of arts such as painting, imprint, photography, sculpture, and any object of arts that has importance in the development of National art and visual history. As at
December 2011, National Visual Arts Development Board (NVADB) has collected a total of 3,925 Permanent Collections valued at RM65 million being contributions and gifts from collectors, corporate bodies, foreign embassies and group of artists. A sum of RM4.56 million was allocated to acquire Permanent Collections for the year 2009 to 2011. For the year 2011, a total of RM1.44 million allocations have been approved and a total of RM1.41 million had been spent. An audit conducted in October to November 2011 revealed several weaknesses in the management of Permanent Collections.

b. Among the weaknesses identified were:

i. Only 800 metres of the one kilometre of pen sketches on canvas for the World Exploration Programme has been completed and it was not submitted to NVADB although the Board of Trustees had terminated the sponsorship contract and a payment of RM156,000 had been made.

ii. Security of the collections was given low priority. For example, the leaking roof, the use of water spray at Exhibition Gallery, obstructed emergency lane and the closed-circuit surveillance camera angle is blocked by the wall panel and the galleries are not equipped with night vision cameras.

iii. Fungus attacks on work of arts due to poor maintenance of dehumidifier and no proper temperature control.

iv. Collections were not properly arranged due to limited storage space and unclaimed work of arts by private owners after exhibitions.

v. Delay in renewing insurance policies may lead to risk on fire, theft and loss.

vi. There were no guidelines on valuation of works of Guest Artists resulting in inaccurate valuation of art works.

vii. Records were poorly maintained due to incomplete and improper data.

c. Audit recommended that NVADB implements the following:

i. To review requirements for security system on Permanent Collections such as using the Very Early Smoke Detection Apparatus, dry chemical extinguishers and sufficient dehumidifier at exhibition gallery and to install appropriate type of board for wall panels to prevent fungus attack.

ii. To monitor and renew insurance policy for Permanent Collections and work of arts on loan to avoid losses in the event of fire, theft and lost.

iii. To dispose off unclaimed work of arts promptly in accordance with the procedures specified in the Act.

iv. To ensure collection records are up to date and well maintained such as Register of Work of Arts Borrowings, Work of Arts Treatment Record, Work of Arts Condition Report and Temperature Readings and Comparative Moisture Record.
v. To prepare Guidelines on Valuation Work of Guest Artists in ensuring the work of arts registered are correctly valued.

vi. To report the actual number of visitors to the Board of Trustees so that promotions can be enhanced to attract more visitors.

11. NATIONAL FILM DEVELOPMENT CORPORATION
   - Management of Film Funds

   a. The National Film Development Corporation (FINAS) has established funds for local film producers to produce films that could develop the film industry and promote the local film internationally. The funds which have been established are Nationalism and Heritage Fund, Arts, Film and Multimedia Fund, Documentary Fund and Animation Fund. For the period of 2009 to 2011, a total of RM33.82 million was allocated for the fund. An audit carried out between October and December 2011 revealed several weaknesses in the management of the Film Funds.

   b. Among the weaknesses noted were as follows:

      i. The films produced by FINAS have not been screened because FINAS did not state as a requirement to screen the films.
      ii. Reports and verifications on film making progress were not made available because FINAS do not have guidelines on payment procedures for the work done by the producers.
      iii. The completion date of the documentary films were not stated in the agreement as the production schedule had not been finalised when the agreement was signed.
      iv. The documentary films were not completed in time due to lack of monitoring on the production progress and there were no monitoring guideline.
      v. The first payment was made before the agreements were signed because of a delay in stamping the agreements.
      vi. The second payment was made without supporting documents because all the expenditure reports and receipts will only be submitted by the grant recipients before the third (final) payment.
      vii. FINAS did not monitor to ensure that the film was completed within the stipulated schedule due to a lack of effective monitoring mechanism.

   c. Audit recommended that FINAS takes the following actions:

      i. To take proactive steps to screen the produced films so as to ensure the work of the producers and production companies are benefited.
ii. To establish Guidelines for the Management of Film Fund which includes procedures for funding application, approval, contract preparation, monitoring and payment to ensure the Film Fund is systematically and efficiently managed.

iii. All payments must be supported by supporting documents such as reports and verification on progress of works.

iv. Agreement should be duly prepared and reviewed by legal officers.

v. The progress of the film production must be monitored to ensure that the films will be completed accordingly.

12. COMPANIES COMMISSION OF MALAYSIA
   - Enforcement Management

   a. The Enforcement Office of the Companies Commission of Malaysia (CCM) is responsible to ensure the company laws and regulations are complied through the Compliance Division, Investigation Division, Legal and Complaints Section. Enforcement activities of Companies Act 1965 include monitoring, data and physical inspection, preparing companies and businesses compliance report, providing complaint channels from the public for investigation and registration of cases in the court. Compound will be issued by Enforcement Office to the company, company directors, business owners and other parties who fail to comply with the Act and regulations. By December 2011, 972,500 companies and 4,646,722 businesses have been registered with CCM. Besides that, a total of 599,796 compounds amounting to RM1.95 billion have been issued from year 2007 until 2011. An audit carried out between November to December 2011 revealed several weaknesses in the enforcement of compounds by CCM.

   b. The weaknesses were as follows:

   i. Weaknesses in managing and data updating had resulted in the automatic issuance of compounds by the system to the companies and all the directors for the chain offences and overlapping compounds for the same offence. The value of a total of 346,546 compounds issued cannot be determined and actions have not been taken.

   ii. The number of cases referred to the Prosecution Division is low. The number of compounds which has been referred to the Prosecution Division for Kuala Lumpur branch is low that is RM8.59 million or only 1.5 percent compared to unpaid compounds of RM554.94 million.

   iii. Different compound rates were charged for the same offence. A total of 172 compound notices of non-compliance out of the 560 compounds
issued for the same offence were imposed either less than 10 percent or more than 10 percent of the compound.

iv. Storage of exhibits is inadequate and insecure. The operation room which keeps the exhibits is not equipped with safety features such as fire detectors, closed circuit cameras and fire extinguishers.

v. The Monthly Enforcement Report only reports on enforcement statistics of the current month. This has caused monitoring of unpaid compounds to be neglected. This report was not presented at the meeting of the Commission's Members and was also not submitted to the Ministry of Domestic Trade, Cooperatives and Consumer Affairs.

c. Audit recommended that CCM takes the following actions:

i. To carry out regular monitoring on the management of enforcement more effectively such as referring unpaid compounds to Prosecution Division and blacklist the company's directors who refused to pay the compounds.

ii. To update the Procedures for Collection and Monitoring Compound to ensure a more effective and efficient enforcement management.

iii. To improve the system which can generate automatic reminders when the compound period expires and also can restrict the registration of new companies from individuals who have high outstanding compound.

iv. To provide sufficient space with security features so that the exhibits are stored safely and in orderly manner.

13. NATIONAL DEFENCE UNIVERSITY OF MALAYSIA
   - Management Of The Construction Of Additional Building Project

a. The Ministry of Higher Education approved a sum of RM124 million under the Ninth Malaysia Plan (9 MP) to The National Defence University of Malaysia (UPNM) for implementing 4 construction projects. The project involves the construction of Hostel for 1,000 students and an Academic Building; Water Reticulation System; Renovation and Upgrading of the Temporary Defence Medical Faculty; Upgrading, Renovation and Completion of Science Lab located on fourth and fifth floor of the Bestari Building. All the projects were handled by the Maintenance and Development Department of UPNM except for the construction of Hostel for 1,000 students and the Academic Building which the Complex Project Management Branch of Works Department (JKR) as the project manager. As at 31 December 2011, the entire project was completed except the construction of the Hostel and the Academic Building was only 92% completed as compare to actual completion date on 30 November 2010. An Audit carried out from October 2011 until January 2012 showed several weaknesses in the construction of UPNM hostel and academic building.
b. Among the weaknesses were as follows:

i. Delay in completion even though the contractor had been granted 2 extension of time.

ii. Selection of inexperienced contractor in terms of lack of funds and lack of experienced technical staff.

iii. Changes in construction site which caused the escalation of the original project cost of RM73.81 million to RM89 million.

iv. Additional costs of RM1.59 million were incurred through the renting of additional facilities.

v. Poor construction works such as non-compliance, imperfections, defects and damages which require immediate actions by the contractor.

vi. The contractor took a long time to rectify non-compliance of project specifications which caused delay in completion.

c. Audit recommended the following actions to be taken by UPNM:

i. The contractor selected should fulfil the set criteria to avoid construction delays and escalation of project costs.

ii. UPNM should plan and identify suitable project site to ensure projects implemented are based on the offer made to the contractor.

iii. The defects and non-compliance identified must be rectified before the defects liability period expires.

14. PUTRA UNIVERSITY OF MALAYSIA
   - Management Of Facilities And Livestock In University Agriculture Park

a. The Agricultural Park was established in Serdang and Bintulu campus to provide facilities and support services for teaching and research in agricultural and bio-resources. The Serdang Agricultural Park comprises of 3 Divisions and the Livestock Section is under the Operational and Agricultural Resources Division. This section is supported by 5 units namely Broiler Poultry Unit, Dairy Coordinators Unit, Equine Coordinators Unit, Small Ruminant Coordinator Unit and Pasture Coordinator Unit. In Bintulu, the Livestock Section is directly under the head of the Agricultural Park. The Campus in Serdang received an allocation of RM43.27 million for the years 2009 to 2011 with an expenditure of RM36.81 million or 85 percent as at 31 December 2011. The Campus in Bintulu also received an allocation of RM5.31 million for the years 2009 to 2011 with an expenditure of RM3.94 million or 74 percent as at 31 December 2011. An audit conducted in October and November 2011 on the management of livestock and facilities revealed several weaknesses.
b. Among the weaknesses were:

i. Facilities and equipment costing RM6.25 million were not fully utilised.
ii. The farm's infrastructure which were not properly maintained will affect the animals health and also dangerous to staff and students.
iii. Delivery of food stocks were not according to the purchase order resulting in an overpayment of RM114,828.
iv. The stock which was not managed systematically had caused the actual balance stock cannot be verified correctly.
v. Fertilisation of pastures did not follow schedule which caused difficulty to maintain soil quality.

c. Audit recommended that UPM takes the following actions:

i. A comprehensive and detail plan for the development of a project in accordance with current needs should be prepared so that the project can be beneficial and avoid wastage.
ii. UPM should ensure all existing facilities are utilised fully in accordance with the objectives.
iii. An effective monitoring mechanism should be in place to ensure the farms are in good condition so that the animals' health and safety are not compromised. All animals should be weighed and given identification to facilitate health and safety monitoring.
iv. Goods received should be checked by store officer to ensure the quantities received are according to order placed. The stocks should be systematically arranged so as to facilitate stocks issuance and verification.

15. PENANG REGIONAL DEVELOPMENT AUTHORITY
   - Management Of Skills Training Programme By PERDA Technical Advanced Institute

a. PERDA Training Centre was built in 1987 and commenced operations in 1989 to provide training for 3 short-term courses namely welding, batik making and construction. PERDA Training Centre has been upgraded to PERDA Technical Advanced Institute (PERDA-TECH) and currently offers 10 different fields of study recognised by the Malaysian Qualifications Agency (MQA) and Malaysian Skills Certificate. An audit conducted in November 2011 and March 2012 revealed several weaknesses in its management of skills training programme.
b. Among the weaknesses that need to be addressed were:

i. Lack of skilled trainers to non-compliance of MQA accreditations requirements.
ii. Delay by service providers in finalising the list of equipment and specifications caused the equipment not being purchased and 2 courses were rated conditional accreditation.
iii. Renovations to the practical workshop did not meet the basic requirements resulting in a non-conducive workshop.
iv. Computer equipment and LCD projectors in the Information Technology store were not used for 13 months.
v. There were no maintenance on 18 welding equipment since 2008.
vi. Payments made to suppliers were not in accordance with the terms of the agreement as they were not supported with Certificate of Acceptance and Certificate of Installation and Testing.

c. Audit recommended that PERDA takes the following actions:

i. To take proactive actions to enable the contract officers to be absorbed as permanent staff.
ii. To ensure that the terms and conditions of the agreement with service providers are clearly stated to safeguard PERDA interests.
iii. To apply for financial allocations to replace existing workshops and ensuring they are more conducive for teaching and learning purposes.
iv. To provide a scheduled maintenance programme to ensure the equipment are maintained regularly.

16. NATIONAL SAVINGS BANK
   - Vehicles Hire Purchase Loans Management

a. In 1995, the National Savings Bank (BSN) had introduced vehicle hire purchase loans to its customers, but it was discontinued in 2003 due to high non-performing loans (NPLs). Therefore, BSN decided to write off NPLs starting from the year 2007. In April 2008, BSN re-activated the hire purchase loan scheme by offering only to Government employees, statutory bodies, government-linked companies and selected organisations. Until December 2011, a sum of RM66.80 million of vehicle hire purchase loans were given out to 1,391 borrowers. An Audit conducted from October to December 2011 revealed several weaknesses in the management of BSN vehicle hire purchase loans.
b. Among the weaknesses which require attention were:

i. Delay in litigation against borrowers with NPL status due to a delay in issuing instructions to the panel of lawyers and changes to the existing panel of lawyers.

ii. There were no salary deductions at Accountant General’s Department for Federal Government employees as the BSN computerised system is not integrated with the Accountant General’s Department system.

iii. The existing Standard Operating Procedures are incomplete.

iv. Monitoring of the legal actions is poor and this has caused litigation to take a long time to resolve.

c. Audit recommended that BSN takes the following actions:

i. To take prompt actions to resolve all litigation cases so as to ensure that appropriate actions are taken against borrowers as determined by the court.

ii. To improve the computerised salary deduction system so that it is integrated with Accountant General's Department computerised system which will reduce the risk of non-performing loans.

iii. To update the Standard Operating Procedures for hire purchase loans by setting targets for each stage of the process so that the hire purchase loans management can be implemented efficiently, properly and effectively.

iv. To continuously monitor the performance of the lawyers to ensure that litigation actions can be resolved within the stipulated time.

17. MALAYSIA EXTERNAL TRADE DEVELOPMENT CORPORATION
   - Management Of Export Services Fund

a. The Government has established Export Services Fund (ESF) on 28 September 2006 amounting to RM150 million under the Ninth Malaysia Plan (9 MP). The purpose of ESF is to expand the exporting opportunities for Malaysian service providers through promotional activities at the international markets. After the mid-term review on the 9 MP in 2008, the Government reduced the ESF allocations to RM115 million. The Malaysia External Trade Development Corporation (MATRADE) has approved payments for ESF to 1,175 companies totalling RM88.18 million as at December 2011. An audit conducted from September to December 2011 revealed several weaknesses in the management of ESF which could be improved.
b. Among the weaknesses were:

i. MATRADE has yet to return the balance of the ESF amounting to RM18.51 million to the Ministry of Finance since this activity had been terminated in the 9 MP.

ii. The members of the Internal Approval Committee which assess and approve 2 types of grants were not formally appointed. The authorised limit of approval of the committee was also not specified.

iii. Processing of MDG-MSP grant applications from companies were delayed between 25 to 319 days.

c. Audit recommended that MATRADE should undertake the following steps:

i. The Grant Management Manual should be updated by setting appropriate performance indicators to measure the effectiveness of the grant. Furthermore, the monitoring procedures need to be specified in the Manual to ensure efficient and effective monitoring.

ii. Appointment of committee should be in writing and the limit of authority must be specified to ensure the grant approval process is transparent and proper.

iii. The processing time for ESF grant reimbursement claims in the Payment Procedures Manual need to be consistent with Approval of Grant 4 and Payment Committee’s decision so that the grants disbursed to the companies are not delayed.

18. EMPLOYEES PROVIDENT FUND
   - Real Estate Investment Management

a. The Department of Private Markets of Employees Provident Fund (EPF) manages the property investment activities. The Property Management Department is responsible for managing, maintaining and controlling the EPF building security and monitoring the facility management of leased buildings. As at December 2011, the accumulated property investment totalled RM2,238.55 million. An Audit carried out from October 2011 until January 2012 revealed some weaknesses in the management of real estate investment.

b. Among the weaknesses were:

i. Two housing development projects and an EPF office building project could not be completed within the stipulated period due to failure of the developer to complete the project and poor performance of consultants.

ii. A lessee failed to pay rental arrears and also failed to comply with the terms of the Lease Agreement signed.
c. An audit on the management of the joint venture housing project revealed several weaknesses but EPF has taken remedial actions to ensure that the weaknesses do not recur. Audit also recommended that EPF should ensure compliance with the tenancy/lease agreement to avoid arrears of rent/lease and to safeguard its interests.

19. FOREST RESEARCH INSTITUTE MALAYSIA
   - Assets Management

   a. The Forest Research Institute Malaysia (FRIM) was established in 1985 to provide and develop a conducive research infrastructure to enable research development and conservation of forest resources. As at 31 December 2011, FRIM has acquired assets valued at RM225.86 million of various categories to improve the research infrastructure. An audit carried out from September to December 2011 revealed several weaknesses in the management of its assets.

   b. Among the weaknesses noted were:

      i. The prices of equipment were not specified in detail in the agreement.
      ii. The supply of laboratory equipment did not meet the specifications in the agreement and FRIM also did not reject them.
      iii. The basic facilities for a laboratory site were not provided by FRIM because it was not properly planned. The test run on the 4 units of Portable Tissue Culture Laboratory which were received in November 2008 could not be performed.
      iv. There was no agreement to determine the rental rate and the tenancy period for the usage of the Portable Tissue Culture Laboratory to safeguard FRIM’s interests.
      v. The closed-circuit camera system (CCTV) was not functioning and was damaged due to a leak in the air-conditioning system. The Automatic Drop Gate System was not installed and kept in the store room. Both the CCTV and the Automatic Drop Gate System were bought at a cost of RM670,739.
      vi. The agreements for 3 contracts valued at RM2.72 million were signed late between 27 to 80 days.
      vii. A regular computer maintenance schedule was not prepared. Log book for the use of High Performance Purification System equipment was also not prepared.
c. Audit recommended that FRIM takes the following actions:

i. To prepare a precise and detail procurement plan to ensure that FRIM obtains economical and best service from its suppliers. The prices of equipment should be stated in detail in accordance with the principles of value for money.

ii. To ensure a rental agreement is signed with the entrepreneur in order to protect FRIM’s interests. A laboratory user manual should also be prepared for proper usage and safe handling of the equipment.

iii. Monitoring should be intensified to ensure payment is made only after the assets were received and in accordance with the specifications stipulated.

iv. Regular maintenance should be carried out on all assets to ensure that they are functioning properly and always in good condition.

20. RETIREMENT FUND INCORPORATED
   - The Management of Private Debt Securities & Quasi Bond Investments

a. The Retirement Fund Incorporated (KWAP) investments consist of Quoted Shares, Unquoted Shares, Malaysian Government Securities, Private Debt Securities (PDS), Quasi Bonds, External Fund Managers, Participation in Private Equity Funds, Loans, Investments in Subsidiaries and Associate, as well as Money Market Instruments. By the end of 2011, KWAP’s total investment funds stood at RM78.65 billion or 99.6 percent from KWAP’s total fund of RM78.93 billion. KWAP manages its investment in PDS & Quasi Bonds Portfolio internally and externally through investment managers. PDS such as Bonds and Medium Term Notes and Quasi Bonds are subscribed through conventional and Islamic papers. As at 31 December 2011, KWAP’s total investments in PDS and Quasi Bonds stood at RM9.91 billion of which 83.6 percent or RM8.28 billion worth of investment are managed internally and the remaining 16.4 percent or RM1.63 billion by external investment managers. The audit conducted between July to October 2011 found that on overall, the investment management of PDS and Quasi Bonds can be enhanced by overcoming the weaknesses.

b. The weaknesses observed were as follows:

i. Checks on 37 samples of subscription proposals for PDS and Quasi Bond showed no approval date recorded, the approval of the Investment Panel were obtained before all members of the Investment Committee gave their feedbacks and approval papers were signed without expressing either support or otherwise.

ii. A total of 37 out of 38 subscription proposals for PDS and Quasi Bonds have approved through resolution.
iii. There were no specific terms in the KWAP Investment Policy and Guidelines (IPG) related to the subscriptions of bond that can be delegated to the Investment Committee for approval.

iv. There were no written procedures available for the management of user identification access to the MFUND Investment System.

c. Audit recommended that KWAP takes the following actions:

i. To comply with the approval procedures for each proposal to purchase PDS and Quasi Bonds as specified in the IPG.

ii. To update the IPG by incorporating the specific bond criteria that can be delegated to the Investment Committee for approval.

iii. To establish written procedures for the control of user identification access to the MFUND system as a guide to the officer in charge and to prevent unauthorised access.

21. SOCIAL SECURITY ORGANISATION
   - Management Of Benefit Payments

   a. The Social Security Organisation (SOCSO) administers 2 types of security schemes, namely Employment Injury Insurance Scheme and Invalidity Pension Scheme. The Employment Injury Insurance Scheme provides protection to employees from employment injury, including occupational diseases and accidents at work-related travel. Among the benefits provided are Temporary Disablement Benefit, Permanent Disablement Benefit, Dependent’s Benefit and Medical Benefit. Whereas Invalidity Pension Scheme provides 24 hours protection to employees against invalidity or death from any cause that occurs outside working hours. By the end of 2011, a total of RM1.73 billion has been spent under the liability expenses, including payment of various benefits to employees and dependents through insurance and pension schemes. An audit carried out between October and December 2011 revealed several weaknesses in the management of benefit payments by SOCSO.

   b. Among the weaknesses identified were as follows:

i. There was an overpayment for 5 types of benefits between the year 2009 and 2011 amounting to RM4.78 million.

ii. There was an annual increase in unclaimed money and in the year 2011 the amount was RM0.54 million.

iii. As the SIKAP System is not integrated with other systems in SOCSO, its data cannot be viewed at real time.
c. Audit recommended that SOCSO takes the following actions:

i. To review the contribution rate in order to increase the fund size to meet the increasing benefit payments each year.

ii. To update the Standard Operating Procedures by stipulating the time frame for processing benefit payments between the internal divisions in order to prevent overpayments.

iii. To take proactive steps by updating the SOCSO dependents’ database to ensure dependents receive benefit payments without delay.

iv. To ensure integration of SIKAP system with other systems in order to provide accurate and updated information so that benefit payments can be made promptly and accurately.

PART III
- MANAGEMENT OF SUBSIDIARY COMPANIES OF FEDERAL STATUTORY BODIES

22. INTRODUCTION

Currently there are 204 subsidiary companies and sub-subsidiary companies of Federal Statutory Bodies gazetted for audit by the National Audit Department. The objectives of incorporating these subsidiary companies are for implementing various activities such as business, investment and socio economic. The purpose of undertaking these activities is to generate profits and reasonable returns and to provide efficient and effective services to the public.

23. THE FINANCIAL PERFORMANCE OF SUBSIDIARY COMPANIES

a. Audit analysis was conducted on 68 financial statements of subsidiary companies and 50 sub-subsidiary companies of Federal Statutory Bodies received as at April 2012 for years the 2006 to 2010. The subsidiary companies were analysed in respect of their financial performance, dividend payment, bonus, tax and zakat and companies’ status. The findings, in general, revealed that profit before tax for 68 subsidiary companies in year 2010 amounted to RM333.83 million, showing an increase of RM135.88 million compared to the year 2009. Audit analysis also revealed that 10 subsidiary companies recorded a pre-tax profit of RM77.40 million for 5 consecutive years whereas 3 others suffered losses totalling RM1.28 million for the same period. Besides that, 2 subsidiary companies paid dividends for 5 consecutive years.

b. Based on the 2010 financial position, it was revealed that 10 out of 68 subsidiary companies that recorded profit have paid dividends amounting to RM71.86 million to their respective Parent Bodies. Subsidiary companies from
the plantation sector paid the highest tax and zakat for year 2010. There are also a total of 22 subsidiary companies and sub-subsidiary companies which are inactive and 4 of which have not commerce operation since incorporation.

c. Audit on the management of companies was conducted on 16 subsidiary companies in year 2011, whereby 3 of them were reported in detail and 13 others were reported in summary form. Audit findings, in general, revealed that the management of subsidiary companies and sub-subsidiary companies of Federal Statutory Bodies were well managed. However, a few weaknesses on the implementation aspect need to be addressed to ensure activities were implemented effectively and properly and achieved the desired objectives.

24. MANAGEMENT OF MARDITECH CORPORATION PTE. LIMITED
(Subsidiary Of Malaysian Agricultural Research And Development Institute)

a. The establishment of Marditech Corporation Pte. Limited (Marditech) is to market the expertise of MARDI, to act as a research platform for the needs of the relevant industries, to provide the capacity as an integrator for technological innovations initiatives and to provide business opportunities. In November 2006, the Ministry of Finance has approved a grant totalling RM58.40 million to finance the project of breeding high quality breed of cattle and goat through the latest biotechnological reproductions or Advance Reproductive Biotechnology Project (ARB Project). This Project was developed by MARDI to produce the best breed of cattle and goat. Marditech has recorded a loss after tax of RM3.5 million in 2010 compared to a profit after tax of RM2.10 million in 2009 and RM0.40 million in the year 2008. The losses after tax in 2010 were due to the reduction in revenue and an increase in direct expenses, management and other expenses. An Audit carried out in April and May 2011 revealed several weaknesses.

b. Among the weaknesses were as follows:

i. The achievement of cattle population was at 81.2 percent and goat at 74.2 percent of the target set.

ii. The achievement of multiplier farm was 86 percent of the target.

iii. The performance of Boer Goat Multiplier Farms were unsatisfactory due to the low birth rate which did not achieve the target set and the high death rate.

iv. The cattle and goat semen purchased in 2007 and 2009 worth RM0.21 million remains unused.
c. Audit recommended that Marditech should undertake the following measures:

i. The original business plan of the ARB Project should be reviewed to ensure that the target set for Nucleus Herd and the Multiplier Farms can be achieved. The National Animal Embryo Centre must have expertise in Embryo Transfer so that the objective of the project can be achieved.
ii. Marditech must ensure that the imported Boer Goats undergo an adaptation process at the Nucleus Farm before they are sent to the multiplier farms so that the birth rate will increase and the death rate will decrease.
iii. The conditions in the agreement of ARB Project and Standard Operating Procedures for Multiplier Farms should be enforced so that the commercial farms can be established effectively.

25. MANAGEMENT OF KESEDAAR PERKILANGAN PTE. LIMITED
(Subsidiary Company Of South Kelantan Development Authority)

a. KESEDAAR Perkilangan Pte. Limited (KPSB) operates a RM15.3 million crude oil processing plant located on The Land Development Schemes KESEDAAR in Paloh 3, Gua Musang, Kelantan. This plant has been operating since 1991 with a capacity of 30 metric ton (t) per hour or 143,500t to 168,480t per year. In 1999, the plant was equipped with machinery valued at RM2.75 million to ensure the crude oil processing runs smoothly. KPSB also manages KESEDAAR oil palm plantation without settlers. An Audit carried out from September to October 2011 revealed some weaknesses.

b. Among the weaknesses were:

i. Inefficient management of farm and agronomic practices.
ii. Plant operations rely on 80% fresh fruit bunches (FFB) from private farms.
iii. The processing of FFB from poor quality planting materials cause the Oil Extraction Rate and the Kernel Extraction Rate to be low.

c. Audit recommended that KPSB takes the following actions:

i. KESEDAAR should seriously consider replanting oil palm trees which are more than 25 years old as stated under MPOB’s Code of Good Agricultural Practice. The replanting will increase the quantity and quality of FFB.
ii. To maximize the output and good quality FFB, KPSB should practise farm management in line with best agronomic practices. This includes cyclical fertilization; pruning and weed control according to schedule.
iii. To control the quality of FFB in order to increase the company revenue, KPSB should have its own oil palm plantations.
26. MANAGEMENT OF MAJUIKAN PTE. LIMITED  
(Subsidiary Company Of Fisheries Development Authority Of Malaysia)

a. The main revenue of Majuikan Pte. Limited (Majuikan) is from fish import charges rights awarded to them by Fisheries Development Authority Of Malaysia (LKIM) and management charges on fish landing complexes belonging to LKIM. Majuikan became actively involved in fishery activities after the rights to collect charges were retracted without notice in the year 2006. Some of Majuikan's main activities were marketing of fish and seafood products, management of LKIM complexes, processing seafood products, processing of prawn feed and aquaculture activities. Majuikan has 7 branches but only one branch in Chendering, Terengganu is still operating. Majuikan has also invested in 7 subsidiary companies involved in deep sea fishing operation, transportation agent and management of warehouses, restaurant business, high technology aquaculture breeding and management of boat landings. Besides that, Majuikan has investments in 3 associate companies which manage and carry out fish breeding as well as supply and marketing of insulated fish containers. An Audit carried out in October till December 2011 revealed several weaknesses in the management of Majuikan.

b. Among the weaknesses observed were as follows:

i. Unsatisfactory financial performance resulted in Majuikan incurring continuous losses for 5 years from 2006 until 2010. Accumulated losses of the company as at the end of 2010 amounted to RM17.38 million while at group level, accumulated losses were RM23.74 million.

ii. Fishery activities carried out in all 5 branches suffered continuous losses during a period of 3 years from 2008 until 2010. Operations at 2 Majuikan’s factories processing prawn feed and seafood products were halted. This is because the production levels at both the factories were below actual capacity and did not achieve the stipulated breakeven point. The factory processing fish fillet for making surimi and fish crackers is still in operation but suffer losses. This is due to high operating costs which exceeded revenue.

iii. Majuikan Fish Centre which served as a collecting as well as marketing centre for fresh sea produce and fish products and Majuikan’s Marketing branch in Kota Baharu, Kelantan also suffered losses during the 3 years mentioned above. This is due to high operating costs that exceeded income generated.

iv. Restaurant’s business activity was not well managed and suffered continuous losses from years 2008 until 2010. Among the factors which caused the losses are location of the restaurant is not strategic to attract
customers, operation and management costs are much higher than sales and there is lack of promotion activities.

c. Audit recommended that the Agriculture and Agro Based Ministry and LKIM should review the viability of Majuikan Pte. Limited and its subsidiaries to prevent the company from becoming a liability to the Government.
APPENDIX A
LIST OF FEDERAL STATUTORY BODIES
### A PRIME MINISTER DEPARTMENT

1. Pilgrims Fund Board *(LTH)*
2. Federal Territory Islamic Religious Council *(MAIWP)*
4. Federal Land Development Authority *(FELDA)*
5. Human Rights Commission of Malaysia *(SUHAKAM)*
6. Penang Regional Development Authority *(PERDA)*
7. Iskandar Regional Development Authority *(IRDA)*
8. Northern Corridor Implementation Authority *(NCIA)*
9. East Coast Economic Region Development Council *(ECERDC)*
10. Suruhanjaya Pengangkutan Awam Darat *(SPAD)*
11. Malaysia Innovation Agency *(AIM)*

### B MINISTRY OF DEFENCE

12. Armed Forces Superannuation Fund Board *(LTAT)*
13. Perbadanan Perwira Niaga Malaysia *(PERnama)*
14. Perbadanan Perwira Harta Malaysia *(PPHM)*
15. Ex-Servicemen Affairs Corporation *(PERHEBAT)*
C MINISTRY OF TRANSPORT

16. RAILWAY ASSET CORPORATION (PAK)
17. PORT KLANG AUTHORITY (PKA)
18. PENANG PORT COMMISSION (PPC)
19. KUANTAN PORT AUTHORITY (LPKtn)
20. JOHOR PORT AUTHORITY (LP JOHOR)
21. BINTULU PORT AUTHORITY (BPA)
22. KEMAMAN PORT AUTHORITY (LP KEMAMAN)
23. PORT OF TANJONG PELEPAS (PTP)
24. PENANG PORT COMMISSION - TELUK EWA (TELUK EWA)
25. MALACCA PORT AUTHORITY (LPM)
26. MALAYSIAN INSTITUTE OF ROAD SAFETY RESEARCH (MIROS)

D MINISTRY OF NATURAL RESOURCES AND ENVIRONMENT

27. THE TIN INDUSTRY RESEARCH DEVELOPMENT BOARD (TIMAH)
28. LAND SURVEYORS BOARD (JURUKUR)
29. FOREST RESEARCH INSTITUTE OF MALAYSIA (FRIM)

E MINISTRY OF WOMEN, FAMILY AND COMMUNITY DEVELOPMENT

30. NATIONAL POPULATION AND FAMILY DEVELOPMENT BOARD (LPPKN)
31. HINDU ENDOWMENT FUND (WAKAF HINDU)
<p>| 32. | MALAYSIAN PRODUCTIVITY CORPORATION (MPC) |
| 33. | MALAYSIAN INVESTMENT DEVELOPMENT AUTHORITY (MIDA) |
| 34. | MALAYSIAN EXTERNAL TRADE DEVELOPMENT (MATRADE) |
| 35. | SMALL AND MEDIUM INDUSTRIES DEVELOPMENT CORPORATION (SME CORPORATION) |
| 36. | CENTRAL BANK OF MALAYSIA (BNM) |
| 37. | EMPLOYEES PROVIDENT FUND (EPF) |
| 38. | NATIONAL SAVINGS BANK (BSN) |
| 39. | MALAYSIAN TOTALISATOR BOARD (LTM) |
| 40. | TUN RAZAK FOUNDATION (YTR) |
| 41. | LANGKAWI DEVELOPMENT AUTHORITY (LADA) |
| 42. | MALAYSIAN INSTITUTE OF ACCOUNTANTS (MIA) |
| 43. | LABUAN FINANCIAL SERVICES AUTHORITY (LABUAN FSA) |
| 44. | INLAND REVENUE BOARD OF MALAYSIA (LHDN) |
| 45. | PERBADANAN INSURANS DEPOSIT MALAYSIA (PIDM) |
| 46. | RETIREMENT FUND INCORPORATED (KWAP) |
| 47. | BANK KERJASAMA RAKYAT MALAYSIA BERHAD (BANK RAKYAT) |</p>
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**KUMPULAN WANG**

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