PREFACE AND REPORT SUMMARY

AUDITOR GENERAL’S REPORT 2011
ON THE ACTIVITIES OF PAHANG STATE GOVERNMENT DEPARTMENTS/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 require the Auditor General to audit the State Government’s Financial Statements, as reported in the State Government’s Financial Statements and the Financial Management of the State Departments and Agencies Report. Additionally, the Auditor General is required to audit the state activities and to report to the Supreme Head of Malaysia, His Majesty, Seri Paduka Baginda Yang di-Pertuan Agong and His Royal Highness, the Sultan of Pahang. His Majesty would grant his Royal Assent for the tabling of the Report to Parliament while His Royal Highness will then consent for the tabling of the Report in the State Legislative Assembly. To fulfill these responsibilities, the National Audit Department conducts performance audits to evaluate the performances of the Departments and Agencies and the Management of the State Government’s Companies as to whether they have carried out efficiently, prudently and achieve the stipulated targets.

2. My Report on the management of activities of the Departments/Agencies And State Government's Companies for the year 2011 are results from the auditing that has been carried out on specific activities implemented by 4 departments, 3 agencies and 2 state government companies. The Report comprises the following parts:

   Part I : Activities of State Departments/Agencies
   Part II : Management of State Government Companies
   Part III : General Matters

3. The audit undertaken on the activities of the State Government is to ascertain whether programs and activities that were plan successfully implemented within the period, prudently and achieved their objectives. In general, the audits carried out revealed several weaknesses in planning, implementing and monitoring by the State departments/agencies/state government companies for the year 2011 as in this Report. Among the weaknesses have been observed were the weakness in the revenue management; the insufficiencies of financial allocation; delays in issuance of licenses; breached of contracts; failed projects; records were not updated; weakness in maintenance and weaknesses in the management of companies. The respective Controlling Officers have been informed on the matters reported for confirmation. In order to improve on the inadequacies observed or to avoid recurrence of the weaknesses, I have put forward 43 recommendations for the respective department heads/agencies and government companies of the state.
4. Besides fulfilling the legislative requirements, I hope this Report will be a basis for remedial actions and to enhance the accountability and integrity as well as to achieve value for money on expenditure in line with the Government Intentions. Indirectly, this will contribute to the Government Transformation Program with its slogan “People First, Performance Now” hereby fulfilling the needs, interests and aspirations of all Malaysians.

5. I would like to express my gratitude to all officers in the various Departments/Agencies and State Government's Companies in Pahang 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 put in their diligent effort and their whole commitment in completing this Report.

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

Putrajaya
5 June 2012
1. On 1st January 1995, the Pahang Entrepreneurs Fund (Fund) was officially established as a result of the decision made in the 7th Executive Council Meeting of that year. Its establishment is in accordance to Section 10(4) (b) of the Financial Procedure Act 1957 (Act 61) with a total contribution of RM5 million. The purpose of this Fund is to address problems faced by entrepreneurs in Pahang into getting the loan financing in the forms of soft loans. The Borrower shall bear an interest rate that is not exceeding 2% per annum and the process of loan repayment is managed by four Financial Institutions selected. The Fund as well provides an alternative financing scheme with reasonable cost. Besides, the Fund may also be used to assist the financial infrastructure and entrepreneurship training which is appropriate to the objectives of Entrepreneur Development Centre (PPU). As to promote the Fund to the entrepreneurs, a promotion campaign has been held and the circulations of application forms were made during the event.

1.2. The audit was conducted from September to December 2011 at the Economic Planning Division (BPEN) of Pahang. Overall, it was found that the Fund is inadequate due to the following weaknesses:

1.2.1. By the end of 2011, the repayment of Fund loan was arrears amounted to RM4.49 million from RM9.24 million in loans granted.

1.2.2. At the end of 2011, an outstanding balance of RM5.95 million transpired even though the Fund loan has been frozen since 2001.

1.2.3. Legal action such as declared bankruptcy, blacklisted, summons and auction of assets has been taken to ten borrowers due to their failure to settle the loan given.

1.2.4. The Government had to bear the brunt due to the failure of borrowers to settle their loans which approximately cost RM2.95 million.

1.3. In order to ensure that the Fund will be managed and implemented effectively, it is suggested that the followings are taken into considerations:

1.3.1. If the Fund is to be continued, there is a need to create a special unit to manage it so that all the actions taken with regards to this matter will be taken effectively.
1.3.2. The need to use the accumulated balance of RM5.95 million for the Fund for Entrepreneurship Program should be reviewed by the State Government as it involved a huge amount and the cost are more on administration.

1.3.3. Immediate legal action against borrowers who failed to pay the loan should be implemented in order not to prolong the matter.

1.3.4. More effective monitoring mechanism should be made through consultations, meetings and regular visit to the borrowers' business premises.

2. DEPARTMENT OF IRRIGATION AND DRAINAGE
   - Rivers Dredging Program

2.1. There are 2,059 rivers with the overall length of 11,960 kilometers have been enacted in Pahang. As a govern body, Department of Irrigation and Drainage (State DID) is responsible in ensuring good river management, water conservation and quality, reducing flood risk and give a prompt respond to any complaints with regards to the repairing works done towards the river. As such State DID has carried out a program called Rivers Dredging (Program) in order to protect and ensure the smooth flow of river to overcome flood. This Program focuses on dredging, deepening and improvement of river flow which includes reshaping the features of river section. Furthermore, the State has given funds to the Program and the focus of its implementation is on excavation work which was done before and after the monsoon season. In the Ninth Malaysia Plan (RMK-9), a total of RM6.70 million has been allocated for this Program. From this amount, RM5.10 million or 76.1% was spent. Whereas, in the Tenth Malaysia Plan (RMK-10), a total of RM4.60 million has been allocated in which RM1.03 million were distributed and splurged in 2011.

2.2. The audit was conducted from September to December 2011 in which found that the management of the Program is unsatisfactory. This is due to the lack of plan in preparing the budget by each State DID and the focus of implementation were given more to the maintenance rather than the dredging and deepening the river. Among the weaknesses identified are as follows:

2.2.1. District DID does not provide a specific plan during budget preparation, including the need to list all the projects by priority.

2.2.2. Implementation is limited and more work on small-scale maintenance and short-term in nature.

2.2.3. Achievement Program can not be measured because there is no fixed target for execution.
2.3. For the improvement of the management of this program, it is recommended the following:

2.3.1. District DID must comply fully with the provision of guidelines and budget plans that have been issued by the Director of the State DID.

2.3.2. State/District DID must ensure the implementation of the scope of work in accordance with the prescribed program.

3. PAHANG’S LANDS AND MINES OFFICE
PAHANG’S MINERAL AND GEOSCIENCE DEPARTMENT
- Management Of Licences And Royalty Collection For Gold And Iron Ore

3.1. Unit Mineral of Pahang’s Lands and Mines Office (PTG) is responsible in managing the application and issuing of mining licences in Pahang. The unit is acted as One Stop Agency for application process while the approval is subject to the decision made by Pahang State Executive. The law applied by the state are Pahang Mineral Enactment 2001 and Mineral Regulations 2005. The laws have been enforced since 1 July 2006. Pahang’s Mineral and Geoscience Department (JMG) is responsible in preparing the Operational Mining Scheme that should be abided by all lease/mines operators. JMG also must ensure that the lease/mines operators comply with the provisions of laws enforced and other operational conditions. Besides that, both departments are responsible for collecting the mineral royalty. In 2009, the total royalty collected was RM13.34 million, then in 2010, the total royalty collected increased to RM21.64 million which was 62.2% higher than 2009. Then in 2011, the total royalty collected was RM39.92 million, an increase of 84.5% over 2010.

3.2. An Audit carried out from August to November 2011 in the Pahang’s Lands and Mines Office and Pahang’s Mineral and Geosciences Department and visit to 10 mines revealed the following weaknesses:

3.2.1. Application process for the mining lease had been delayed which taken more than 605 days.

3.2.2. The actual quantity of iron ore extracted from the mines could not be determined.

3.2.3. The lease/mines operators did not comply with the Statutory Conditions Of Mining Lease and Operational Mining Scheme.

3.2.4. Mining activities had affected the nearby residents which caused discomfort to them.

3.2.5. Lacked of monitoring and enforcement works by PTG and JMG.
3.3. To ensure that the management of licences and royalty collection for gold and iron ore in Pahang is conducted accordingly, the following recommendations should be considered by PTG and JMG:

3.3.1. To expedite the application process by improving the working coordination between Technical Departments and PTG.

3.3.2. PTG and JMG should conduct affiliate with Malaysian Administrative Modernisation and Management Planning Unit (MAMPU) to review the mechanism used in application, issuing of license and collection of royalty.

3.3.3. To improve the 13D form for users benefit.

3.3.4. PTG should have sufficient personnel in ensuring that the application processes and monitoring job are carried out effectively and efficiently.

3.3.5. To conduct monitoring and enforcement to ensure that all the mines strictly follow the rules and regulation involving environment.

4. PAHANG ISLAMIC RELIGIOUS DEPARTMENT
- Management of Cooked Food Supply to the Hostel of Pahang State Religious Secondary School

4.1. There are 18 Religious Secondary Schools (SMA) in Pahang which located almost in all districts. These SMA are under the supervision of Pahang Islamic Religious Department (JAIP). Each SMA has a hostel and the management of cooked food supply is under the responsibility of JAIP. The State Government through JAIP will fund the cooked food supply contract which will be renewed every 2 years. From 2008 to 2009, the value of the contract amounted RM27.88 million while from 2010 to 2011 the value of the contract was RM36.6 million. In 2009, the cost incurred was RM11.08 million. Then, the cost increased to RM12.96 million in 2010 and RM12.86 million in 2011.

4.2. An audit carried out from July to September 2011 in JAIP and 10 SMA revealed the following weaknesses:

4.2.1. Management of raw and dry material:

4.2.1.1. Supply of raw material was not in specified measurement.

4.2.1.2. Materials supplied were not labelled HALAL from Malaysia Department of Islamic Development and exceeded the expiration date.
4.2.1.3. The main stocks were not stored to accommodate 3 days minimum requirements.

4.2.2. Specification and supply of raw materials - quality of fish supplied could not be determined.

4.2.3. Cleanliness of the kitchen and dining hall were in unsatisfied condition. Other area such as the management and safety of the kitchen also were not in satisfied condition.

4.2.4. The food Order Form was provided less than 48 hours as required. Besides that, the dates were not recorded in the form.

4.2.5. Employees were not sent for handling food course.

4.2.6. JAIP and SMA monitoring works were unsatisfied because of the Internal Audit and Monitoring Committee is not yet established.

4.3. To ensure that the management of food supply is conducted accordingly, the following recommendations should be considered by JAIP and SMA:

4.3.1. JAIP has to provide guidelines to streamline and improve the efficiency and effectiveness of management of cooked food supply and they can use Pekeliling Bahagian Pembangunan Dan Bekalan Kementerian Pendidikan Bil. 2 Tahun 1994 as reference.

4.3.2. To improve the conditions of the contract provided by JAIP by including details specification of material supplied by the Contractor.

4.3.3. To provide training and briefing to the Hostel management in order to understand better the conditions of the contract.

4.3.4. The SMA should conduct a daily monitoring basis and take stern action against Contractor who did not complied with the terms of the contract.

4.3.5. JAIP needs to collaborate with the law enforcement agencies such as State Health Department and Local Authorities on a regular basis to carry out inspection on premises, worker’s health, dining hall equipment and food quality in the SMA.
5. DEPARTMENT OF AGRICULTURE
   - Agro Tourism Industry Development Program Of Taman Pertanian Jubli Perak Sultan Haji Ahmad Shah Kuantan, Pahang

5.1. Taman Pertanian Jubli Perak Sultan Haji Ahmad Shah Kuantan, Pahang Darul Makmur (Agriculture Park) was first developed in stages since 1987. The Agriculture Park is an Agro-forestry park that blends variety of agriculture activities with natural beauty. This park is a unique agro-tourism destination and serve as an attraction for tourists to enjoy its natural beauty thus making it as a center where various plants are economically and potentially stored from all over the country. The entire area of Agriculture Park is 504.4 hectares which consists of two phases. Development expenditure incurred since the inception of the park until the end of 2011 is RM22.76 million. The objective of Program Pembangunan Industri Agro Pelancongan Taman Pertanian Jubli Perak Sultan Haji Ahmad Shah Kuantan, Pahang (Program) is to be known as the State Agricultural Centre of Excellence. The programs implemented in Agricultural Park are an integration between plants, livestock, aquaculture and recreational activities.

5.2. An Audit carried out from September to December 2011 found that the overall Program is not satisfactory because of the weaknesses as follows:

5.2.1. The performance of the Program did not meet its objective although it was launched since 1987.

5.2.2. A total of 7 out of 15 projects were implemented successfully, while 4 of the projects failed during the course of implementation. In addition, 3 projects were not implemented and 1 project which is Agricultural Training Centre was given to Yayasan Pahang in 1993 to be made a learning institution.

5.2.3. There is no monitoring method to oversee the implementation of project development and maintenance thus affects the growth of the Program.

5.3. It is recommended that the Department take the following remedial actions in order to ensure that the objectives of the program is fulfilled:

5.3.1. Detailed and thoroughly review on the concept and objective of the project should be done to ensure that the existing projects can be implemented effectively and efficiently without failure.

5.3.2. Intensify the promotional activities of Agriculture Park to increase the number of visitors.

5.3.3. Establish a monitoring mechanism to govern the implementation of project development and maintenance works at the Agricultural Park.
5.3.4. Enhance cooperation and coordination of work performed between State agencies to ensure the projects are implemented successfully.

6. **LEMBAGA MUZIUM NEGERI PAHANG**
   - Management of Historical Artifacts and Collections

6.1. The Lembaga Muzium Negeri Pahang (Lembaga) was established under the Enactment Bill of 1/1975 on 14 August 1975, is responsible to oversee the heritage and historical treasures of the state in a proper and systematical manner and to exercise all the powers imparted by the Enactment. Among others, the Lembaga’s roles are the responsibility to preserve and document all the artifacts and collections obtained. The collections are anything with historical and cultural values whether purchased, borrowed or gifts. While, artifacts are anything extracted from the ground, river beds, lakes or the seas that were excavated, modified and believed to be dating back at least a hundred years.

6.2. An audit was carried out between July to October 2011 had observed that the overall management of historical artifacts and collections by Lembaga was unsatisfactory due to a few weaknesses as follows:

6.2.1. The records of the artifacts and collections were not maintained or updated properly.

6.2.2. Temporary tags were used for the artifacts and collections.

6.2.3. A similar artifact and collection was purchased/stocked in large quantities.

6.2.4. The stereo typical technique and style of the exhibitions held and the lack of publicity.

6.2.5. The restoration/maintenance works were not scheduled.

6.3. To ensure the realization of the main objectives of Lembaga and to transform the museum into an attractive destination for visitors especially the young generation to know the history and treasures of Pahang, it is recommended the Lembaga to undertake remedial actions as follows:

6.3.1. To set up a committee for the acquisition of artifacts and collections to ascertain the artifacts and collections are of historical value, in an adequate quantity and at a competitive price.

6.3.2. To develop and improve the record system and to maintain a complete, orderly and updated records of the artifacts and collections.
6.3.3. To diversify the style and increases the frequency of exhibitions held with a more selective attractive collections such as a themed exhibition in order to garner interest of the public especially the young generation to visit the museum, to know and love our history and cultures.

6.3.4. To increase and intensify publicity to the targeted groups by having campaigns and promotions at public congregation centre such as the offices, schools, hotels and shopping complexes.

6.3.5. To ensure that every artifacts and collections of historical heritage is well protected and preserved for the future generation’s viewing.

7. KUANTAN MUNICIPAL COUNCIL
   TEMERLOH MUNICIPAL COUNCIL
   - Management Of Closed Circuit Television (CCTV)

7.1. Government through the Ministry of Housing and Local Government (Ministry) has launched a Closed Circuit Television (CCTV) Project. The project was implemented in Kuantan Municipal Council (KMC) and Temerloh Municipal Council (TMC). The main purpose of installing CCTV is to monitor the surroundings, to reduce, avoid and prevent crime. KMC has allocated RM0.98 million for the installation of 8 units CCTV in Kuantan. Additionally, 16 units CCTV have been installed in Kuantan which rental and maintenance costs totalling of RM 1.90 million were funded by the Ministry. Whereas in 2009, TMC has allocated RM0.38 million for the installation of 5 units CCTV in Temerloh and Mentakab.

7.2. The audit carried out from September to December 2011 found that the management of CCTV Project done by the Local Authorities need to be intensified in order to achieve its goals. The effectiveness of CCTV in preventing crime could not be verify due to several weaknesses as follows:

7.2.1. One out of 5 units CCTV in Temerloh town is not functioning since it was installed.

7.2.2. The CCTV Operations Control Unit has not been formed to ensure that CCTV can be operated efficiently and effectively in order to prevent crime.

7.2.3. The location of CCTV Control Room in TMC is not suitable and the CCTV system is not link to the Temerloh District Police Head Quarters, whereas the CCTV Control Room in Kuantan District Police Head Quarters is narrow.

7.2.4. The transfer of technology cannot be done due to fact that KMC and TMC do not take into consideration the technical training to the CCTV personnel.
7.2.5. CCTV manual is incomplete which contains only guidelines for preparation of reports on CCTV maintenance and operation.

7.3. To ensure that the management of CCTV project can be carried out efficiently and effectively it is recommended for the councils to take the following actions:

7.3.1. To ensure CCTV at designated locations are functioning at all time. For this purpose, continuous monitoring must be conducted to ensure the maintenance of CCTV system is carried out according to schedule and necessary actions can be taken immediately to any complaint on malfunction.

7.3.2. To ensure that a special unit is formed by the Local Authorities and Royal Police of Malaysia in order to operate the CCTV.

7.3.3. To ensure that a suitable room/CCTV Control Room is set up by TMC, Kuantan District Police Head Quarters and Temerloh District Police Head Quarters.

7.3.4. To provide training to ascertain that transfer of skills and technology from vendor can be done to the CCTV personnel of TMC, KMC and The Royal Police of Malaysia.

7.3.5. To provide a detailed CCTV Manual specifically for The Royal Police of Malaysia personnel in charge of CCTV Control Centre.

7.3.6. To ensure that the reporting of Safe City Program on crime index should be based on the locations of CCTV and overall crime index.

7.3.7. The Royal Police of Malaysia should provide data on crime index based on CCTV locations to evaluate the effectiveness of CCTV.
PART II - MANAGEMENT OF STATE GOVERNMENT COMPANIES

8. THE STATE GOVERNMENT’S COMPANIES

8.1. Sistem Pendidikan Islam Pahang Sdn. Bhd. (SPIPSB) was instituted on 13 November 1998. The SPIPSB is wholly owned by the State Government with an authorized and paid up capital of RM10 million. The main purpose of setting up the SPIPSB is to be a center of knowledge excellence and ingenious individuals. The SPIPSB’s mission is the commitment to improve the academic quality which integrates the Aqli (Mind) and Naqli (The Quran and Hadis) knowledge to produce balanced, competitive and talented individuals through a professional management practices and environmentally conducive. The core activity of the company is to manage a private educational college namely the Kolej Islam Pahang Sultan Ahmad Shah (KIPSAS). KIPSAS offers educational courses at a diploma and professional levels in various disciplines.

8.2. An audit was carried out in November to December 2011 observes that the financial performance of the company was unsatisfactory because SPIPSB incurred a loss before tax for three consecutive years for the financial year 2008, 2009 and 2010. The management of the company’s main activities which are the management of the KIPSAS College and the management of the company were satisfactory. Performance of the academic achievements of students was also satisfactory. However, there are a few weaknesses as follows:

8.2.1. The student intake is still below the target.

8.2.2. The escalating fee arrears.

8.2.3. The high administration costs forces an increase in the total expenditure thus resulting in the losses to the company.

8.2.4. The Board of Directors meeting was not held regularly as scheduled.

8.3. To secure the main objectives of SPIPSB which is to produce a class of human capital with knowledge excellence and ingenious individuals and the integration of the Aqli and Naqli knowledge are achieved, it is recommended that SPIPSB undertakes the improvement actions as follows:

8.3.1. Increasing the effort to generate more income for the company from various sources.

8.3.2. Upgrading the fee collection system to prevent arrears which can result in a loss to the company.
8.3.3. Strengthening the management of the company and the college by holding Board Meetings on a regular basis as scheduled.

8.3.4. Intensifying promotion especially to students in their final year of school to reach the targeted students thus increases the total income of the company.

8.3.5. Monitoring the subsidiaries to make sure they are making profit and SPIPSB would gain some return from its investment.

9. PAHANG STATE DEVELOPMENT CORPORATION

9.1. Rumpun Timur Sdn. Bhd. (RTSB) is a subsidiary of Pahang State Development Corporation (PSDC). It was established on 16 April 1998 with paid up capital of RM100,000. Till December 2011, the paid up capital is RM1.1 million out of RM5 million authorized capital which wholly owned by PSDC. It has been involved in agri-business sectors such as aquaculture, livestock and agriculture. It also roles as management and secretarial company to PSDC and its subsidiaries.

9.2. Audit conducted in August till October 2011 found that its overall establishment objectives have been attained. However there are some weaknesses identified as per below:

9.2.1. Guidelines and working procedures have not been approved by the Board of Directors.

9.2.2. Proposal for payment of bonus has not been forwarded to the State Government Authority for YAB Chief Minister’s consideration and approval.

9.2.3. Tender has not been done for procurement exceeding RM500,000.

9.3. Therefore, it is recommended that the following actions to be taken:

9.3.1. To observe and evaluate project management aspect in ensuring that the projects can be done as per scheduled.

9.3.2. To enhance company’s performance by focusing on competitive activities with highest profit while contributing to improvement of Pahang’s socioeconomic.

9.3.3. To streamline the company’s corporate governance by taking Malaysia Corporate Governance Code of Conduct as the best practice to preserve the Government’s interest. It can be done by having guidelines on financial management, assets management and others. Other than that, it also can be done by improving the financial management and internal control especially in controlling the expenses by implementing prudent spending.
10. **PAHANG RELIGIOUS AND MALAY CUSTOM COUNCIL**  

10.1. Pusat Rawatan Keluarga MUIP Sdn. Bhd. (PRKMUIP) was incorporated on 16 February 1990. Pahang Religious and Malay Custom Council owned RM2.45 million paid up capital out of RM5 million authorized capital. The main activity of PRKMUIP is providing the medical services that offer expertise from various disciplines for all groups, race and religion.

10.2. Audit conducted in November 2011 till January 2012 found that financial performance, management of activities and corporate governance of PRKMUIP is satisfactory. However, bonus payment has not been forwarded to the State Government Authority for YAB Chief Minister’s consideration and approval.

10.3. Therefore, it is recommended that the following actions to be taken:

10.3.1. To analyze financial position and performance in ensuring the company’s operation contribute to the optimized profit.

10.3.2. To improve company’s performance by increasing the promotion as well as focusing on the competitive and more profitable activities.

10.3.3. To streamline the company’s corporate governance by taking Malaysia Corporate Governance Code of Conduct as the best practice to preserve the Government’s interest.