“PUBLIC ASSET MANAGEMENT IN MALAYSIA – AN AUDIT PERSPECTIVE”

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Bismillahirrahmanirahim

Assalamualaikum Warahmatullahi Wabarakatuh

Good Morning and Salam 1Malaysia

Distinguished Guests

Ladies and Gentlemen,

I am most honoured to be here today to share my views on the management of public assets. By public assets, I mean all assets owned by the Federal, State and Local Government which include transportation networks, energy supply systems, flood protection and land drainage systems, solid waste facilities, library administration and other community facilities, educational and health sector facilities as well as furniture and fittings. Such assets have the sole purpose of providing the needed services to the public and enhancing their quality of life.

In Malaysia, public assets are not subjected to balance sheet recognition and valuation. The present Government accounting system, being on cash basis, only shows budget allocated and actual expenditure incurred for asset procurement or construction projects for the year concerned. It does not show the actual cost and present value of all the existing assets. While the Government allocate resources for minor repairs and maintenance as well as upgrading/renovating of assets under the operating and development budget each financial year, there is no specific account to record the actual cost of overall maintenance including the life cycles maintenance of an individual asset.

Having said that, the Government has provided several guidelines to ensure systematic assets management, for example:

- In 1967, the Factories And Machinery Act outlined safety and health standards requirement;
In 1974, rules were circulated for the maintenance of buildings, public roads, sewage systems, as well as the role and responsibilities of the Public Works Department;

In 1992, the Government issued the “Guidelines For Total Quality Management In The Public Service”;

In 1995, General Circular Letter No. 2 on the “Maintenance Management – Establishment of Planned Maintenance System” was issued to enhance maintenance management system in the Public Sector;

In 2007, Treasury Circular No. 5 provided guidelines for the management of moveable assets;

In 2009, General Circular No. 1 outlining the Government’s policy and principle on total asset management.

Besides these directives, the Government has also given the ministries/departments jurisdiction and responsibilities over the management of their assets. Under the 10th Malaysian Plan, an estimated budget of RM230 billion is allocated for development projects inclusive of repairs, maintenance, upgrading and renovation of assets. This reflects the Government’s commitment to ensure that assets are being better managed, upgraded continuously and maintained properly for maximum life.

The Public Works Department (PWD) in particular has been entrusted to introduce Total Asset Management (TAM) concept as part of Government’s effort to inculcate a new regime of maintenance culture in the public service in Malaysia. Together with MAMPU, PWD is introducing MySPATA, an electronic based asset management solution for all categories of immovable assets belonging to various ministries/departments.

Currently, the maintenance divisions of the PWD are structured along two major asset types namely Road & Bridges and Buildings. Maintenance of road and bridges has long been the core business of the PWD and is undertaken by the Road Facilities Management Division. The most recent restructuring saw the establishment of Building
Facilities Maintenance Division that would specifically look into facilities management of government buildings. This Division will also be responsible to carry out facility audit as part of the new maintenance concept besides introducing various building maintenance standards such as Green Building Index (GBI) as an effort to achieve optimum asset value for all immovable assets belonging to the Government.

So we can see that in terms of policy guidelines on asset management, the Government has already taken the necessary steps. Whether these efforts are adequate or not, time will tell. It is then a matter of effective implementation. From the audit perspective however, Government departments and agencies can and must do a better job in asset management, including maintenance, and strive to remove the perception that asset management is a low-priority item in the institutional agenda. Going by events in the recent past and basing on the generally unfavourable audit findings on asset management, I must say there is an urgent need for the public service to learn from the lessons of the past and not to repeat past mistakes, which in some cases should have been avoided or can be prevented in the first place. The public image of the Government suffers every time the ceilings or roofs of public buildings (stadiums, hospitals, courts) collapse or seriously leaked or when badly maintained roads, drains and other public amenities get media publicity. The frequency of these things happening can be alarming sometimes and affect public perception as to why public assets seem to deteriorate very fast, just a few years after their construction or acquisition.

In the normal course of auditing asset management and maintenance in the public sector, auditors usually look for economy, efficiency and effectiveness (the 3Es) to establish whether there is value for money. This is very important because each year, the Government spend billions in acquiring new assets or in maintaining existing ones. Therefore it is imperative that in the course of acquiring, managing, maintaining and disposing these assets, due care and diligence is exercised to avoid wastage, extravagance or fraud.
From Audit reports, it is not uncommon that instances of wastefulness, extravagance and mismanagement have been detected which indicate that public money has not been wisely spent. The implied opportunity cost involved must surely be of great concern to the Government. Considering that audit is based on sampling only, such revelations could well be ‘the tip of the iceberg’ and quite naturally invite concern from stakeholders.

Predictably, auditors discovered, among other things, assets were acquired at exorbitant costs (because market study was not conducted) giving rise to suspicion of buyer/seller collusion. Sometimes assets are of poor quality and then these assets were not fully or properly utilized for their original purpose. There have been cases of assets which were acquired years ago but still stored in their boxes, unopened while some were not properly stored leading to their deterioration (as in the case of fertilizers).

Auditors also find low-cost housing or shop lots or stalls not being occupied for a long time because of inefficiency in deciding the occupants, causing unnecessary maintenance and repair costs or repair costs when they were vandalized! Even quarters/apartments of Government employees were poorly maintained. There were also few cases of expensive facilities being abandoned because of high maintenance costs and cases where completed facilities were not used at all because of poor location or technical deficiencies.

In the case of ICT assets, there have been cases of underutilized hardware because of serious delays in system development. There have been cases where tasks have still to be done manually although what is supposed to be a fully automated system has been certified fit! Sometimes, in the name of upgrade, the existing system was replaced even though it has not been fully used or simply because it was poorly designed and not user friendly. All these arose from inadequate planning and inadequate supervision of vendors.
Indeed, Audit reports have over the years, contain horror stories about how inefficient or ineffective the manner in which Government assets are acquired, managed, maintained and disposed and implied in all these is how much money has gone to waste! This is one of the reasons why public perception of public governance has been negative. This will surely continue unless firm measures are urgently taken to improve the competency and diligence of all those involved in procuring, managing, maintaining and disposing Government assets as well as strict enforcement of rules and regulations pertaining to Government assets. There has to be better supervision over the contractors, vendors and suppliers involved in the acquisition, management and maintenance of government assets.

With the introduction of the Accountability Index of Financial Management in the public sector since 2007, improvement in the management and maintenance of Government assets can now be measured. This is because one of the performance indicators used in the Accountability Index is Asset Management and some of the reasons why ministries/agencies have not fared well in terms of obtaining excellent rating are as follows:

- Assets procured not used/not used optimally
- Poor control over usage of Government vehicles
- Improper records such as non/late registration of assets
- Assets not tagged or labelled as Government property
- Insecure storage of poor office security resulting in loss of Government assets
- Lack of space for proper storage of assets
- Delays in write offs further aggravate space storage creating inefficient store management
- Annual inspections on assets not carried out
- Overall Maintenance Program not prepared and/or maintenance not carried out as scheduled
It is however noteworthy that, judging from recent performance, asset management has seemingly been given greater attention whereby more ministries and state administrations have been given excellent Accountability Index ratings compared to three years ago. This, therefore, provides a reason to be more optimistic about asset management in the public sector.

Ladies and Gentlemen,

Going forward, the National Audit Department is working closely with the auditees so as to develop a conscious awareness of the importance of an effective public asset management. Assets are important strategic resources to the country which are expensive to build, maintain and manage through time. Not only are they strategic resources in their own right, they support and enable a whole range of service delivery functions within the Government, have significant costs associated with them and absorb significant levels of investment. In an environment of constrained resources those investments need to be clearly justified and prioritised in terms of other opportunities available. Clearly, it requires constant performance and control monitoring as assets management generally raise issues of long term sustainability and sustainable development. On the part of the National Audit Department, specific audits will continue to be carried out to ascertain that the management process benefit the community and at the same time has taken into consideration the value of every ringgit spent in line with the prime minister slogan “People First, Performance Now”.

To conclude, I would like to mention that, with departments and agencies’ heads setting the right tone at the top supporting best practice in asset management, with greater competency and diligence shown by all those involved in asset management together, with tight and close supervision over private sector players involved in asset management, I am confident that overall improvement can be achieved to the credit of the civil service.

Thank you.