

Saturday October 24, 2009

Business - 3 agencies to contribute RM100mil each for consortium

PETALING JAYA: A consortium with equal stakes for Felda, Felcra and Risda will be set up by year-end with a paid-up capital of RM300mil, according to Budget 2010. Each government agency will need to contribute RM100mil for the consortium which will be involved in technology sharing, plantation management, and business partnerships including supply and processing of agriculture products. On Aug 23, Prime Minister Datuk Seri Najib Razak proposed that the three government agencies consider setting up a consortium to jointly explore both downstream and upstream projects and other mutual cooperations.

Currently, efforts are being undertaken to establish Felda settlements for large-scale food production and as a national food storehouse. Vacant land in Felda settlements will be used to plant chillies, brinjal, bunga kantan (torch ginger bud) and bananas. The Government has also proposed that the Federal Agriculture and Marketing Authority facilitate the marketing of these products. To ensure the agriculture products are marketed abroad effectively and expeditiously, efforts to upgrade cargo facilities will be intensified.

The Government is also proposing that MASKargo upgrade its air cargo facilities for export of perishable agriculture products, as this measure will assist entrepreneurs to boost exports. Risda director-general Datuk Mohammad Izat Hasan said it was a good move by the Government to ensure that each government agency have equal stake in the consortium based on the equal contribution to the paid-up capital. "Risda has enough internal reserves to contribute about RM100mil for the consortium," he told StarBizWeek.

The first step now is to get the Memorandum of Articles and Association's approval to set up the consortium. "This will be deliberated by the respective boards in the three agencies. Once approved, the issue on the appointment of the consortium's top management will be made," he added.

Felcra director-general Datuk Mohd Nasir Baba said: "The three agencies have held many working committee meetings over the past few months. We will try to fulfil the Prime Minister's vision to see a formation of a dynamic consortium led by Felda, Felcra and Risda." He said the consortium would focus on new high-impact downstream projects, while the existing operation of each agency would run as normal. Felda could not be contacted for comment.

Sunday October 25, 2009

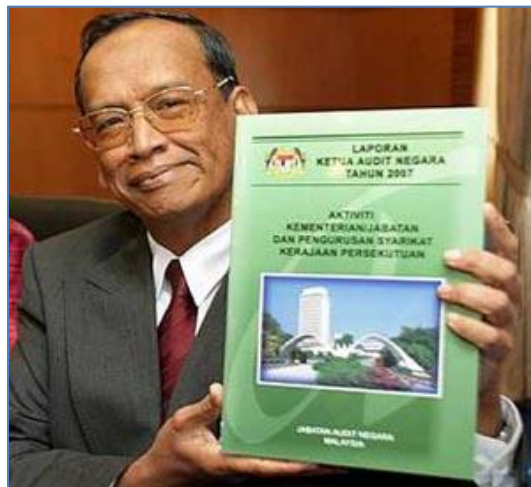
The Auditor-General's report

Focus - Where's the action?

By HARIATI AZIZAN, JOSEPH LOH and RASHVINJEET S. BEDI

Last week, the Auditor-General's Report made headlines again as it exposed more poor administration and mismanagement of funds. Will sterner action be taken against the offenders this time?

A WHOPPING RM42,320 for an outdated-model laptop. A swivel chair price-tagged between RM810 and RM1,050. Yes, it is that time of the year again where we get to gasp in shock at some of the outrageous procurements and financial negligence of our hapless civil service. The Auditor-General's (AG) Report for 2008 was tabled in Parliament last Monday, and as in recent years, it highlighted the mismanagement of public funds by those entrusted to balance the country's books.



Familiar tune: Ambrin with the 2007 report. Despite the powerful backlash from detractors of the Government that followed the reports of mismanagement of funds then, the weaknesses remain. – RAJA FAISAL HISHAN/The Star.

The gross expenditures mentioned above were made by Kolej Kemahiran Tinggi Mara Balik Pulau, Penang, which also spent RM2.08mil buying computer software it allegedly didn't need. It seems like only yesterday that another government training college, the National Youth Skills Institute or IKBN (under the administration of the Youth and Sports Ministry), was rapped for spending RM8.39mil above the market price for certain equipment – including a RM224 screwdriver set (of four) which had a RM40 market price; a RM5,700 car jack that would normally cost a mere RM50; and RM8,254 digital cameras that were retailing at RM2,990.

And what about the RM418,145 of welfare aid paid out to 184 undocumented –possibly non-existent – people, out of which 26 were confirmed dead? The 2006 report also showed that some other “dead” poor were receiving welfare aid.

The improprieties revealed by Auditor-General Tan Sri Ambrin Buang and the National Audit Department (NAD) this year again lay bare the weaknesses in the public system, which allow for incompetence and transgression to occur, if not flourish. Worse, the report highlighted that federal ministries and departments generally have not shown much progress in managing their finances last year despite the measures taken to correct weaknesses in the system. In fact, the report stated, many departments had spent in excess of their budgets.

Yet, despite the widespread media coverage, heated discussions among the public as well as the powerful backlash from detractors of the Government that followed the reports of mismanagement of funds in the past years, the weaknesses remain. Why do cases of such misappropriation of public funds, ill-advised government investments, and delays in major government projects still persist? And the crucial question that begs to be answered: “Will there be any action taken on the perpetrators of the alleged corrupt practices as documented in the report?”

Token action

Ambrin has repeatedly said the NAD has no jurisdiction to penalise offenders highlighted in the report. “The NAD has no power to prosecute. The power to impose penalty for criminal acts lies with the court, whereas the power to impose surcharge for delinquent officers is with the Finance Ministry. Any disciplinary action will then be the responsibility of the heads of department,” he told reporters last year. Where there are instances of corruption which can be proven in court, the court will impose appropriate penalties, he reiterated, explaining that corruption has to be proven according to the law, and it has to be substantiated with evidence and witnesses. As such, investigation can only be done by authorities such as the Malaysian Anti-Corruption Commission (MACC) or the police.

MACC has assured that it would proceed with the necessary action should it find any irregularity in the AG’s report 2008, which it is studying to unearth elements of corruption, misconduct and abuse of power in the management of public funds. Prime Minister Datuk Seri Najib Tun Razak has also been quick to say that action will be taken against those found guilty of misusing government funds. Expressing his disappointment with the misconduct and abuse in the public sector, he assured that there would naturally be “punitive measures” for those identified. In April last year, Najib, who was then DPM, had also vowed to correct the deficiencies in the public system as exposed by the 2006 AG’s report. True to his word, he instituted key performance indicators (KPIs) and key result areas (KRAs) to measure the performance of the civil service, as part of the system of good governance.

Similarly, in 2007, after yet another edition of the A-G's report was tabled, Chief Secretary to the Government Tan Sri Mohd Sidek Hassan announced that investigations will be conducted on government officers and staff implicated of corruption and mismanagement of public funds by the report. He assured that they would either be charged in court or face disciplinary action, and added that the Government would make public the "punishment" taken against them. Sidek then proclaimed that the Public Service Department would also come out with a "demotion and disciplined" list every quarter so that the people would know action had been taken.

While some of the measures promised have been implemented – the spate of arrests of those involved were reported – the effectiveness of the "cleanup" measures is yet to be seen. To date, fewer than 20 people have reportedly been arrested for the abuses and misconduct highlighted by the 2006 AG report. The familiar tune emitting from the recent report further indicates that the crux of the problem has likely not been addressed. Tunku Abdul Aziz Ibrahim, former president of Transparency International Malaysia (TI-M), doubts if any action will be taken against the perpetrators. "Based on past records, I doubt that anything is going to happen. And next year there will be a repeat of the same thing.

Those involved have never been hauled up or investigated. This happens because there is no political will," says Tunku Aziz who is also the former special advisor to the United Nations (UN) Secretary General on the establishment of the ethics office. He stresses that many of the cases highlighted by the AG's report are tantamount to criminal offences as they involve cheating and breach of trust. "Over the years, nothing has been done and why should it be any different now. The auditor-general has highlighted some very serious examples of poor governance, which should not be tolerated," he laments, adding that in most countries, the AG's reports are taken very seriously. "The report here is not even discussed in parliament and given the attention it deserves," he says.

Former audit officer Gursharan Singh concurs. "The lack of action reflects badly on the different parties involved, from the Executive (the Government) to the enforcement agencies and judiciary. Some might think that they are colluding with each other," says the pensioner who worked with the NAD for over 30 years. TI-M secretary-general Dr Loi Kheng Min agrees that it is important for the authorities to demonstrate that they are serious in addressing the issue. "They need to show that it is not just lip service. Although we already have the necessary agencies such as the MACC, the priority is not there and many are not bold enough to go all the way with the enforcement," he says, stressing that it is crucial for the Government to enhance the effectiveness of the regulating agencies.

Dr Loi proposes that a compliance committee be set up to follow up the misconduct and abuse cases reported by the AG. "The committee can focus on reviewing the report and recommend appropriate action to be taken." Public Accounts Committee (PAC) vice-chairman Dr Tan Seng Giaw, however, points out that the PAC is a body which can scrutinise the report and recommend for appropriate action. "In fact, we are meeting the AG and his team on Wednesday for a full briefing on the report and we will then discuss its content and deliberate on possible action," he says.

Although disappointed that the 2008 AG's report has revealed more mismanagement of public funds, Dr Tan is nevertheless confident that the system in place is adequate to take the errant individuals to justice. Still, he stresses, the *modus operandi* of the public administration offices needs to be reviewed. Dr Loi agrees, saying: "We need to review existing procurement guidelines. Are they outdated? We also need to be more open and transparent in our tender system. This may help reduce the abuse of public finances."

Gursharan Singh echoes the need for a more transparent open tender system. "In Malaysia, contracts are substantially awarded on a consideration basis. This usually translates into low quality, bad planning, high cost and poor maintenance," he says, adding that the Malaysian tender system used to be competitive but deteriorated after a change of administration policy in 1982.

Tunku Aziz strongly believes that the Government must do something to show that they do not tolerate the mismanagement that is happening – or risk losing public confidence. "Unless they are seen to be serious, people will lose confidence in them. I am also talking about the Government agencies. The bad leadership in the various agencies and departments have allowed this situation to develop," he says.

"Otherwise there is no point in having an auditor-general's office. It should be closed down." Citing the example of the Kolej Kemahiran Tinggi Mara in Penang, Tunku Aziz says the institution should be closed down for financial mismanagement, "These are public funds and someone should be held responsible," he says.

Mohd Nazree Mohd Yunus, chairman for the Civil Movement Against Corruption (Gerak), believes the AG himself should lodge reports with the MACC in cases where there were mismanagement of funds and power. "He has the authority to do so because he was involved in the report," says Nazree.

He says that Gerak would be willing to make the reports if they were given the relevant records and documents from the Auditor-General's office. Nazree also suggests that government servants themselves lodge the reports. "It would be a new culture and would show that the officers have integrity," he says.

Sunday October 25, 2009

The Auditor-General's report

Cases of mismanagement

AS in previous years, the AG's Report for 2008 has identified various instances of mismanagement of public funds. This time around, among the cases that were highlighted was Kolej Kemahiran Tinggi Mara Balik Pulau in Penang (under the Human Resources Ministry), which paid RM84,640 for two laptops. The college bought another 450 computer units totalling up to RM3.45mil, with 19-inch monitors at RM8,500 each and 17-inch monitors at RM7,500 each.

Mara has explained that the equipment were purchased in a lump sum, with no price breakdown. The report also revealed that the Miri Industrial Training Institute (ILP) bought a pole platform costing RM30,000 while two other institutions paid a little more than RM1,000 for it. It remains to be seen what action will be taken against those involved in these cases.

Following are more cases of mismanagement highlighted in the AG's reports over the years.

Oct 2007

The Youth and Sports Ministry came under fire when the Auditor-General's Report 2006 revealed that it had overspent RM8.39mil for its National Youth Skills Institutes (IKBN). Five people were arrested including one ministry director and a supplier. The four were charged under Section 11(c) of the Anti-Corruption Act while the fifth person was charged with criminal breach of trust. Another four in Kota Baru, Kelantan, claimed trial in connection with the overpriced goods in setting up the IKBN in Bachok. Three people were charged with the purchase of "overpriced" digital cameras for the IKBN in Chembong, Negri Sembilan.

Oct 2007 - Five personnel from Sabah were charged with 62 counts of corruption involving welfare payments to people who were dead. Another welfare officer in Raub, Pahang was charged with 22 similar offences.

Oct 2008 - After investing RM537.04mil in the US-based Columbia Aircraft Manufacturing Corporation (CAMC), the Government only managed to recoup RM25mil, losing over RM500mil.

Oct 2009 - The Government lost an estimated RM1.14bil in its Ipoh-Rawang double track railway project when it was taken over by a new contractor after the original one failed to complete it.

Oct 2009 - Some RM418,145 of welfare aid was doled out to 184 undocumented people in Perlis, out of which 26 are confirmed dead.

Monday October 26, 2009



Government losses can reach RM28bil a year – or more due to overpayment

The Government could be losing billions of ringgit every year through excessive payments for contracts and procurements for a wide range of things ranging from water tunnels to IT contracts and purchase of computers. Second Finance Minister Datuk Seri Ahmad Husni Hanadzlah acknowledged that the amount is a lot but could not give an exact figure. Estimates based on government spending indicate that if one assumes overpayment on contracts is just 20%, then the losses could come up to as much as RM28 billion a year.

Other main points from our StarProbe are:

- Hundreds of millions of ringgit in overcharging are taking place for ICT, which is a multi-billion-ringgit industry. Contract prices can sometimes be more than 50% than if the deals were done on a tender basis.
- Project finance on favourable terms from foreign countries – the so-called soft loans – can result in contractors being restricted largely to those from the country providing financing, resulting in considerably higher costs.
- Open tenders, done properly and with appropriate evaluation, are one of the most effective ways of reducing the costs to government. At least two state governments see great benefits in open tenders.
- Malaysia falls short in comparison with other countries in terms of calling for and disclosure of open tenders and their details. There is no centralised system.
- The Government is keen to cut wasteful spending and will, as far as possible, have open tenders from now on.

Monday October 26, 2009



Overpaying by the billions

PETALING JAYA: The federal and state governments are losing billions of ringgit every year through over-priced contracts for things ranging from huge water tunnel projects to the outsourcing of information technology services. Second Finance Minister Datuk Seri Ahmad Husni Hanadzlah has acknowledged the amount that is lost is “a lot” but could not give an exact figure. He said the government needed to curb wasteful spending by having competitive bidding for tenders in order to get more bang for its ringgit. Precise figures are difficult to come by where government spending is concerned, but conservatively developing countries such as Malaysia would have to spend between 10% and 20% of annual gross domestic product (GDP or the sum of goods and services produced) on government procurement.

That would mean between RM70bil and RM140bil was spent on large infrastructure projects through to the procurement of supplies and outsourced services last year based on a GDP at current prices of around RM700bil. Even if the overpayment is just 20%, the amount that the government loses can come up to between RM14bil and RM28bil a year. It could be much more than that if the overpayment is higher – as it often is. According to the Auditor General’s report for 2007 and 2008, delays in the completion of projects were one of the main factors for the cost overruns. The reports also highlighted weaknesses in the procurement of various items ranging from vehicles to furniture for various government bodies and initiatives.

The general view is that if the jobs were contracted out through an open tender, instead of the oft-abused and much maligned direct negotiation system, there can be much savings. According to estimates by two sources, costs could be as much as 50% lower if these jobs were tendered out through a by-the-book public tender. On the other hand, some argue that government contracts were awarded at higher costs due to several reasons, including more rigorous safety specifications of the Public Works Department or the failure to review market prices especially when the costs went down. Even with the higher specifications, a number of projects have been shown to be lacking in quality or safety aspects over the years.

In recent times, this would include the infamous Matrade building, which was supposed to be completed in 1997 but was only ready in 2006 and which eventually cost RM287.5mil against an initial estimate of RM167mil, after taking into account a further RM64.8mil for repairs. Other instances of shoddy workmanship include the then brand-new RM270mil Jalan Duta court complex’s cafeteria being flooded after a pipe burst in May 2007 while late last year, the Putrajaya Corp building sprang leaks on the roof during a high profile business meeting.

The list of projects also includes the recently completed RM300mil Stadium Sultan Mizan Zainal Abidin in Kuala Terengganu, the roof of which collapsed in early June and the overall damage estimated at RM35mil. Another reason for the higher costs is that small or Class F contractors, who are often inefficient and lack economies of scale, bill the federal and state governments higher. According to a source, the job might be the only substantial one they have for the year. As the public outcry gets louder over the billions of ringgit that have been lost in projects that make no business or economic sense, the government initiated key result areas (KRAs) and key performance indicators (KPIs), where ministries not only have to meet their budgets but also be required to produce results for the funding.

Husni said that since March 2008, all big government projects – except military or security contracts – have been awarded through the open-tender system. *StarProbe* understands that there is a threshold for open tenders, which starts at RM500,000. However, even public tenders risked being abused as evidenced by the tender for Tourism Ministry's pavilion for the 2010 World Expo in Shanghai. Venturepharm Asia Sdn Bhd, which was awarded the RM19.99mil project, is mired in allegations that it was given the job despite its bid not being the lowest nor it having the expertise but because of political connections. In addition to the contract, it was also involved in another multi-million ringgit project from the Science, Technology and Innovation Ministry to develop poultry feed known as biofeed.

If all the projects worth at least RM500,000 were to put through open tender, then questions must be raised over the Pahang Selangor Raw Water Tunnel project, which was awarded earlier this year. Apparently, the government had “pre-qualified” three consortia for the project, with the initial phase costing RM1.3bil to be built by the Shimizu-led consortium. The project was awarded via a restricted tender to a consortium led by Japan's Shimizu Corp and Nishimatsu Construction Co Ltd, which own 30% each in the project. IJM Corp Bhd and UEM Builders Bhd equally share the balance stake. The entire water transfer project would cost over RM8bil, of which about half would be financed with a cheap loan to the government from the Japan Bank for International Cooperation. Industry sources allege that because of the Japanese soft loan, the pre-qualification shut out others who were quite capable of undertaking the project, leaving the field to Japanese companies.

Monday October 26, 2009

The Auditor-General's report

A-G's 2008 report shows project delays, lack of oversight continue to cost govt millions of ringgit

PETALING JAYA: The Auditor-General's Report for 2008, which was tabled in Parliament on Oct 19, reveal weaknesses that had been highlighted in the previous year's report were a continuing thorn in the side of proper financial management at every level of government. Delays in project completion seem to be a perennial problem and the lack of oversight by various ministries and departments in the procurement of goods and services continue to cost the Government hundreds of millions of ringgit. These range from multi-billion ringgit infrastructure projects to the procurement of laptops and maintenance of government assets.

For example, Kolej Kemahiran Tinggi Mara Balik Pulau in Penang paid RM84,640 for two laptops or RM42,320 per laptop and spent RM2.08mil on computer software that was not used, among other things. Then there is the over RM15mil the Perak government spent on new purchases of cars and maintenance over the past four years and still not being able to manage its vehicles properly. Auditor-General Tan Sri Ambrin Buang said in the preface to the 2008 report that the audit revealed the non-compliance of various financial regulations in the management of Federal Government finances. "The result of the audit showed that some of the federal ministries and departments were not serious in improving their performance in financial management, even though such weaknesses had been repeatedly reported and brought to their attention by the National Audit Department," he said.

Weaknesses revealed in the report included the Finance Ministry's public infrastructure maintenance programme, basic infrastructure programme and parliamentary constituency rural development projects involving RM4.59bil for 92,687 projects from 2005 to November 2008 that were still not satisfactorily implemented. It said there were delays in project completion, work not done in accordance with the original scope of works, increased project costs due to the inclusion of procurement of equipment and assets in the scope of works, unutilised facilities upon completion, improper payments made for works not done and shortage of officers in project supervision.

The report highlighted that the Agriculture and Agro-based Industry Ministry's Tanjung Manis integrated deep-sea fishing port in Mukah, Sarawak, built at a cost of RM313.62mil, did not achieve its "main objective" because of project delay, unsatisfactory work quality and non-completion or non-construction of certain basic facilities. The Rural and Regional Development Ministry's Infodesa programme was also singled out for mention due not only to the perennial problem of project delays but also to the delay in operating the completed Infodesa Centres. The report said a total RM68.38mil had been spent on the programme as at Dec 31, 2008, but 156 completed centres were still not registered in the name of the Federal Land Commissioner.

The programme has been ongoing since the Eighth Malaysia Plan (2001 to 2005). It added that the Works Ministry's poor planning of the Federal Government Administrative Centre in Muadzam Shah, Kedah resulted in the complex not occupied earlier. "As at Dec 31, 2008, 95% of the Federal Government Administrative Centre was completed and a total of RM243.53mil was spent," the report said, adding that lack of oversight caused project delays. Weaknesses were also noted in the Science, Technology and Innovation Ministry's human capital development programme where targets of schemes were not fully achieved, payments were made to unqualified recipients as well as inefficient monitoring and evaluation of the programme. The programme cost the Government RM153.73mil from 2006 to 2008.

Monday October 26, 2009

The Auditor-General's report

Overcharged for ICT It mainly involves outsourced services

PETALING JAYA: Ministries that outsource their information and communications technology (ICT) services are being overcharged to the tune of hundreds of millions of ringgit and often by companies that are relatively unknown for their expertise in the industry. ICT is a multi-billion ringgit industry with value-added services, according to Pikom, the association that represents the local ICT industry. ICT contributed 10.8% to the country's gross domestic product last year while the overall industry accounted for 26.9% of the manufacturing sector.

A source familiar with such deals said this typically happened in the multi-million ringgit deals involving outsourced services instead of the procurement of computer hardware. "The contract price can be more than 50% higher than if the deals were done on an open tender basis," he said, adding that ministries had overpaid for these services. He blamed the negotiated deals for this. "One example is that of a number of little-known deals totalling around half-a-billion ringgit for ICT services that were awarded to several unknown companies two to three years back," he said.

He said the contracts were initially tagged at RM1bil but were later reviewed and the value reduced after industry players pointed out the discrepancy in the costs versus the market price. He said once awarded, the contract-winning companies would often subcontract them out to other companies as they lacked the expertise. "This is part of the reason why the prices are uncompetitive. The other being the companies involved in the work will itemise various services in the bill to justify the cost but that is hard to prove," he added.

However, in the Auditor-General's 2007 report, it was noted that even where the procurement of computer hardware was concerned, there were discrepancies. The report found that in the Education Ministry's Teaching and Learning Science and Mathematics in English, there was an excess of between one and 20 computer notebooks compared with

the number of teachers for the programme in each school. The ministry was approved an allocation of RM4.99bil for use in the programme from 2002 to 2008, of which RM2.21bil was used from 2002 to 2007 for the procurement of computers, LCD projectors, screens, trolleys, loudspeakers, televisions and training for users of these equipment.

Monday October 26, 2009

At what cost project finance?

PETALING JAYA: Mega projects financed by cheap foreign loans may have helped kick-start long delayed infrastructure works in the country, but these overseas funding also came with strings attached that make the deals complicated and more expensive. Recent projects funded by these so-called “soft loans” include the Second Penang Bridge and the Pahang Selangor Raw Water Tunnel projects. In the case of the Second Penang Bridge, the participation of a bridge builder from China was guaranteed after the Government agreed to take up the Chinese offer of a US\$800mil loan to part finance the RM4.3bil project.

It was a similar situation for the recently awarded interstate water tunnel contract, where it was reported that Japanese firms were represented in all three consortia that were shortlisted for the project. The project was funded with loans from a Japanese development bank. It raised the question whether the cost of these projects could have been lower if there had been a more competitive bidding process. The Second Penang Bridge project was initially directly awarded to a consortium made of government-linked UEM Group and China Harbour Engineering Co Ltd.

Last year, the Government set up Jambatan Kedua Sdn Bhd to take over the project, although both contractors are still involved in the construction of the bridge, which has now been broken up into several packages. It is unclear who would eventually collect the toll on the bridge to pay for the construction costs. The bridge itself is targeted for completion by mid 2012. Prime Minister Datuk Seri Najib Tun Razak, during his official visit to China, is reported to have assured China’s leaders that Chinese companies would continue to be involved in the bridge project. He also said Malaysia would consider offering Chinese contractors participation in the planned double-tracking rail project from Gemas to Johor Baru in exchange for finance for the project.

Monday October 26, 2009

Government: No more wasteful spending

PETALING JAYA: The Government has vowed to cut down on wasteful spending to lower its budget deficit, which this year is expected to hit 7.4% of gross domestic product (GDP or the sum of goods and services produced in the country). The government policy is that all major public projects must go through the open tender process, according to Second Finance Minister Datuk Seri Ahmad Husni Mohamad Hanadzlah. Exceptions are projects that involved the military and security issues. It is also understood that the threshold for open tender is for projects valued above RM500,000.

At a press conference last month, Husni said competitive bidding process for public contracts would result in significant savings for the Government. He declined to give a figure, but said the target was to reduce government operating expenditure by 15% next year. Currently, the Government's annual operating expenditure is about RM150bil. A 15% savings on that amount to RM22.5bil. The Government is expected to spend RM33.8bil on subsidies this year, according to figures obtained from the 2008/2009 Economic Report. This compares with RM26.5bil allocated for procurement of goods and services for its ministries and agencies.

The two items combined account for 40% of the Government's operating expenditure this year. Meanwhile, the Federal Government development expenditure is budgeted at RM51.7bil this year. This excludes RM22bil of additional spending incorporated in the two stimulus packages launched since November last year to counter the impact of the global financial crisis on the local economy. Bank Islam senior economist Azrul Azwar Ahmad Tajudin says it is unlikely the Government will cut public spending next year despite the huge budget deficit. He said what the Government needed to do was to plug the "leakages" in the system. Husni said the Government was reviewing its food and fuel subsidy policy and improving its public procurement methods.

So how does one bid for government contracts?

The tendering process in Malaysia is largely decentralised, although the Government is expanding its electronic procurement system, called e-Perolehan, to improve transparency. Husni said all government contracts were awarded by the respective ministries. The finance ministry's tender committee will review contracts valued at RM100mil or more. He said as part of the key results areas (KRAs) and key performance indicators (KPIs), each ministry must not only meet its targeted budget, but also be able to produce the required results for every ringgit spent.

Monday October 26, 2009

Johor practises open tender

JOHOR BARU: The issue of non-transparency does not arise in Johor when awarding public projects or tenders to successful bidders or contractors as it is done via an open tender. Mentri Besar Datuk Abdul Ghani Othman said the guidelines and procedures were based on the directives stated in the Treasury Department Circular No: 5, 2007, and the Works Department Circular No: 4, 1993. He said the tender notice for projects would be advertised in major newspapers and that contractors had 21 days to tender their applications to the Works Department.

Ghani said the Works Department would also submit the estimated cost of the projects which would be used as a yardstick for awarding the contracts. All applications would be opened and verified by two members appointed by the state Works Department director and applications (only the bidding prices and not the name of the contractors) would be posted on the notice board for public viewing. "The open-tender system practised by us is to get projects with the most competitive cost. However, it does not mean that we have to offer the tender to the lowest bidder," he told *StarProbe*. Ghani said awarding of a tender was based on comparing one tender against another and also the estimated cost of the project submitted by the Works Department.

Others factors taken into account include good track record, financial capability, technical ability and time taken to complete the project. He said the Works Department's estimated cost of a project was based on the current prices of building materials, adding that the department updated monthly changes in raw material prices.

Ghani said the cost index of building materials and their current prices were based on data from the Statistics Department. "So, allegations that the department does not keep abreast with the price volatility of building materials and current market price do not arise," he said. Ghani said contractors could always claim they had no choice but to mark up the cost of a project because building material prices were controlled by certain parties or suppliers. However, he said there was a special provision, called variation of price, that was included in the contract to help contractors in cases where there were increases in the prices of building materials.

Ghani said Johor was strict when awarding projects to contractors to ensure that there would be no "short cuts" or "cutting corners" or else they would deliver inferior projects. He said it would be better to have a small number of competent and reliable contractors than to have many who were not able to perform satisfactorily.

Monday October 26, 2009

The Penang experience

GEORGE TOWN: The cost of a state government project can differ by over 50% in an open tender. Penang Chief Minister Lim Guan Eng said that when a recent state government project on the mainland was opened for tender, the difference between the highest and lowest bid was about RM100mil. "The highest bid was over RM160mil, while the lowest and winning bid was RM75mil. If the project was not openly tendered, the state would have had to spend about RM100mil more for the same project," Guan Eng told *StarProbe*. "The lack of visibility in the tendering process is a key reason why previous state government projects were expensive. Now that we have adopted an open bidding process, a substantial amount of money has been saved," he said.

Guan Eng said the state government would usually seek advice from an in-house consultant on the cost of a project. "We will then compare it with the price in an open bid. If it is 20% more than the estimated cost, we won't award the project. If it is 20% less than the estimated cost, we also won't award it, as it would not be possible to complete the project at such a low price. "The reputation of the contractor counts, as the contractor will bank his name on the job. If the project were to fail, the cost of rehabilitating it will be astronomical, not counting the time lost," he said.

Under the current state government's transparency system, details of these jobs and their costs are posted on the state government website, www.penang.gov.my. Penang Master Builders' & Building Material Dealers' Association (PMBBMDA) executive adviser Lim Hun Swee said the lack of visibility and transparency in project tenders started after the Asian financial crisis in 1997. "Government agencies picked a select few to bid for jobs or it was done via direct negotiation with only one party. Without an open system, the Government cannot get the best deal and may actually spend more, as there is no basis for comparison," Hun Swee said.

Until today, Federal Government jobs were still not well advertised for open bidding, he said. PMBBMDA president Finn Choong pointed out that government contracts generally cost more because of the safety specifications of the Public Works Department (JKR). "For example, the specifications for a JKR bridge would need additional requirement for cement and steel to ensure that it met the highest safety standards. The project would cost more than if a private developer were to do it.

"Government contracts are also higher because it has a policy of looking after small Class F contractors. The Government will usually ensure that a RM5mil job is broken up into ten RM500,000 portions for the small contractors. "But because the small contractors are not competitive, they would charge the Government more, subsequently raising the cost of the project," he explained.

According to Penang Municipal Council president Tan Cheng Chui, government contracts could also be more expensive because raw material prices were not reviewed regularly. "In general, government contracts are higher because there is very little review of material prices going on. For example, a project to build a bridge this year may make use of last year's quotation for building materials. "Consistent review of quotations based on the latest pricing of raw materials is needed to lower the cost of government projects," Tan said.

Monday October 26, 2009

RM9bil to build police facilities

PETALING JAYA: Over the past four years, Pembinaan BLT Sdn Bhd (PBLT) has dished out more than 140 projects worth over RM9bil to local contractors under a fast-track programme to build modern facilities for the Royal Malaysian Police. PBLT was set up by the Finance Ministry in 2005 after more than RM500mil worth of projects for the police rolled out under the Eighth Malaysia Plan failed to meet construction deadlines. At least 11 of these projects were abandoned by developers.

PBLT was one of the major projects under the private finance initiatives to take off the ground. It was reported that the construction of police facilities by PBLT was funded through loans from the Employees Provident Fund. It is unclear, however, if PBLT has managed to raise the funds needed to fully cover the RM9bil projects. Most of the projects are expected to be completed by 2012.

PBLT managing director Mohd Hatar Ismail left the company recently, while chief operating officer Mohd Redza Mohd Yusof declined *StarProbe's* request for comments. Basically, PBLT was tasked with building the police facilities and to lease them out to the Government when completed. This means that projects by PBLT are not reflected in the Government's development expenditure under the current Ninth Malaysia Plan. Meanwhile, contractors that had previously participated in PBLT tender calls said that not all PBLT contracts were awarded via the open tender process. Some of these projects were awarded through direct negotiation, which gave rise to speculations about possible abuse and accusations of inflated price. The company does not disclose all its projects.

Monday October 26, 2009

Are tenders open and fair?

PETALING JAYA: Most people are in the dark over how government tenders at the state or federal levels are carried out. Perhaps this is because until fairly recently, most government jobs were awarded on a direct negotiation basis. While the Government has started to award projects based on a tender system, it is often unclear how this works since the practice is filled with various caveats and regulations deemed to be “politically sensitive”. Furthermore, a browse through the various federal and state websites can be confusing as there is no central Web portal from which everything can be viewed, perhaps due to the fact that the various states in the federal system have their own guidelines.

The Public Works Department website’s section on tenders clearly states that agencies must adhere to existing government guidelines including the strategies under the National Development Policy, policies regarding the environment, foreign investment and technology transfer, and insert a bumiputra-first clause as part of the tender and contract. Last November, Prime Minister Datuk Seri Najib Tun Razak affirmed that the Government “will still have the discretion to determine if there will be direct negotiations”. “Procurement for bumiputra contracts will also be awarded via competitive bidding among bumiputra companies,” he says.

Second Finance Minister Datuk Seri Ahmad Husni Hanadzlah said at a press conference recently that the Federal Government had awarded all big government projects via the open tender system since March last year. It is understood that the threshold for open tenders starts from RM500,000. At the federal level, the Government’s website, www.malaysia.gov.my, has a list of tenders that can be sorted by ministry/agency, tender title as well as start and end dates.

Besides the main government website, there is ePerolehan, the Federal Government’s electronic procurement system mainly for expenditures that come under operating expenses such as stationery to maintenance of buildings. The Selangor government website, www.selangor.gov.my, also has a site for tenders but oddly it is embedded in a section entitled “Residents” and subsection of “Services” instead of being immediately visible on a separate section in the homepage where all the main sections are.

According to a blogger in a July 29 blog posting in *The Star*, the government tender system has been in existence since pre-independence days but went through major changes in the days of the New Economic Policy and privatisation. The blogger says that under the old system, procurement by open tender was very transparent.

“First, the tender is advertised as widely as possible. The closing date for receiving the tender documents is announced publicly. Normally the opening of the tender box is set about an hour after the closing of the tender box,” the blogger says, adding that anybody could attend the opening of the tender box.

“After every document has been opened, a tender list is prepared. The list consists of the names of the tenderers, their tender offers, and other relevant details. All this is done in the open meeting, open to the public. The tender list is open for public viewing, normally posted on the notice board,” the blogger says.

Tender evaluation

The next step is the tender evaluation. The blogger says this is done by the relevant government departments. “This is followed by the tender board meeting, which decides on the tender, based on the tender evaluation report. This stage is not open to the public. But the decision of the tender board is made public,” the blogger says.

The decision of the tender board – which must include the list of tenderers and their offers – is posted on the notice board for public viewing. “If the tender board selects a tenderer who is not at the top of the list, the board must give its explanation, which should go together with its report,” the blogger says. In India, which operates on a federal system not unlike Malaysia’s, there is a website for tenders known as the Indian Government Tenders Information System at <http://tenders.gov.in>.

The website states that it “is the central source for government and public sector procurement, tenders and notifications issued by the central and state governments and other public bodies across India for goods, services and works”. The website has useful information including the latest tenders, open tenders (those that are currently active and for which the last date is near future), tenders by product/service, by agency, by classification (whether buy, sell, auction, work contract or service contract), by location and by value.

Most importantly, the website has a section on big awards and details of bid information for tenders published and awarded to successful bidders along with the terms of contract. Neighbouring Singapore has GeBiz (Government Electronic Business), the government’s “one-stop e-procurement portal,” according to information gleaned from the website. The website states that all public sector invitations for quotations and tenders are posted on the portal while suppliers, after registering as a trading partner, can search for government procurement opportunities, download tender documents and submit bids online.

Singapore’s Finance Ministry and Spring Singapore or the Standards, Productivity and Innovation Board, an enterprise development agency, also publishes a government procurement guide for small, medium enterprises to help these companies understand government procurement rules. In Australia, the government has AusTender at www.tenders.gov.au, which provides guidelines for procurement of property and services. The site links to information on how to be a supplier of goods and services to the government, besides having information on proposed, current and closed tenders.

The Australian government also practises a form of pre-qualification through a “multi-use list” which it publishes through the AusTender site. According to information from the site, it is a list of pre-qualified suppliers of nominated goods and services who have satisfied the conditions for inclusion on the list. However, inclusion, even if insisted on by government agencies, does not guarantee any potential supplier that an agency will include them in a select tender process.

Monday October 26, 2009

The Auditor-General's report

Extent of damage to ecosystem can be seen from northern to central parts of Sarawak

By STEPHEN THEN

MIRI: The Auditor-General's report detailing poor forest-management in Sarawak is certainly an eye-opener, but the report has merely scraped the surface of the actual extent of the massive environmental damage that overlogging and oil-palm projects have caused in rural Sarawak. The extent of damage to the ecosystem can be seen from northern Sarawak all the way to the central parts of the state, and it is not only the non-governmental bodies that are up in arms over these woes, but also village community leaders, members of Parliament and state assemblymen from Barisan Nasional.

The Star had during various trips into the remote areas also found rivers, hills, valley basins and mountain slopes being badly affected by blatant land clearing, timber extraction and construction of logging trails. Many rivers have become so polluted by mud debris from logging activities that they are no longer fit for use for cooking and drinking. Rivers running through oil-palm estates have been poisoned by pesticides and palm oil effluents while erosion and siltation have resulted in constant floods that threatened tens of thousands of people.



Not safe: A tributary of the Linau River in central Sarawak that has been ravaged by logging. The water is undrinkable due to mud erosion and the river is clogged by timber debris, making boat rides dangerous. Many other rivers in Sarawak face similar problems due to excessive logging and oil palm projects.

The latest Auditor-General's report named Sarawak, Pahang, Johor and Kelantan as the states that had fared badly in terms of forest management and enforcement of environmental laws. The report said that these states are suffering serious degradation to their forests and environment that had caused severe increase in erosion, river degradation, landslides, destruction of flora and fauna and depletion of animal habitats.

The report also said that due to the lack of enforcement by the forest authorities, illegal logging had even been found in national parks and forests reserves. Though the report did not mention specific areas in these states that are ravaged by environmental woes, The Star found many such places in Sarawak. In the Lambir constituency south of Miri, rivers are so badly polluted by land clearing and oil-palm projects, riverine villagers have sounded alarm bells. These woes were also brought up for discussion among political leaders during a meeting here.

State assemblyman Aidan Wing said villagers had complained that effluent from oil-palm estates was being dumped into nearby rivers. "We (villagers) cannot rely on the rivers for drinking and cooking anymore because the water has been too seriously contaminated. "The rivers were the main source of water for thousands of people. Now, these rivers are no longer safe. The villages need piped water supply from the water treatment plant. "During the drought, thousands of people had to seek help from the Public Works Department to transport fresh water," he said.

Wing appealed to State Public Utilities Minister Datuk Seri Awang Tengah Ali Hassan to seek funds to connect every longhouse and riverine settlements to the JKR Water Treatment plant in Lambir. In the northern interior of Baram, its MP Datuk Jacob Dungau Sagan had also lamented the extent of erosion along the mighty Baram River caused by logging. "More than 25,000 people living along the river and its tributaries are affected by floods because of the erosion. "They may have to be relocated to safer grounds," he said.

In Kapit, Ulu Rejang MP Datuk Billy Abit Joo said the once-beautiful rivers that run through his constituency have become rivers of mud because of the logging operations. Lusong Laku Penan chief Tinggan Jati complained that the amount of sand and mud in the river had rendered these sources of water unfit for even washing. Sahabat Alam Malaysia (SAM) field officer for Sarawak, Jok Jau Evong, called on the Sarawak Forestry Corporation to be more efficient in stopping illegal logging and abuse of wildlife.

He said SAM had received complaints from natives living in the Mulu National Park that illegal logging was happening along the borders of this World Heritage Site. Jok urged the state government to take a serious view of the AG's report and take appropriate actions to remedy the problems cited in the report.

Monday October 26, 2009

PKFZ project results in high cost overruns

PETALING JAYA: The Port Klang Free Zone (PKFZ) project is a recent example of a case where poor control and oversight resulted in substantial cost overruns and additional expenses which ran into billions of ringgit. Poorly managed financial plans and overcharging for the project, modelled after Dubai's Jebel Ali Free Zone (Jafza), have turned the dream project into a nightmare, with costs running to RM4.6bil from an initial RM2bil. The initial alarm rang when the owner of PKFZ, the Port Klang Authority (PKA), announced it needed a soft loan to meet financial obligations for the RM3.4bil commercial bonds and asset-backed securities that were issued for the development of the project in July 2007.



Then, a few weeks later, Jafza, a Dubai-based and a world's leading free-zone operator, withdrew from the 15-year management contract for PKFZ due to a "realignment of its business strategy". The government soft loan to PKA amounting to RM4.6bil for PKFZ caused a public outcry and a clamour for the truth of the financial issues surrounding the project to be made public. The Government insisted that the soft loan was not a bailout and would be paid back, as the lifespan of the free-zone project was about 50 to 60 years. Questions over the viability of the project have also dragged the Parliament Public Accounts Committee into the picture and resulted in a meeting with PKA.

Since then, a series of summonses, police reports and task forces to probe the many financial issues of the project has surfaced. Companies and individuals directly involved in PKFZ have been questioned. PricewaterhouseCoopers (PwC) was appointed the external auditor to shed light on the reason why PKFZ needed the RM4.6bil soft loan last year. Among the issues highlighted in the PwC report were several development proposals which were not tabled to the Cabinet for approval despite having obtained prior Cabinet approval to purchase the land for PKFZ.

The report said key matters were not tabled to the PKA board for approval. For example, board approval was not sought when PKA's common seal was affixed to certain agreements and when delivery of land was accepted without contractor Kuala Dimensi completing the infrastructure works specified. To date, PKA has filed two suits against the PKFZ turnkey contractor Kuala Dimensi Sdn Bhd and a suit against the project consultant BTA Architect over key development and supplemental agreements signed between February 2003 and November 2006 as well as computation of interest that brought the disputed amount to RM1.64bil.

Kuala Dimensi's business relationship with PKA turned sour after it was alleged to have "overcharged" PKA for the project, causing severe losses. PKA appointed Kuala Dimensi to develop PKFZ on a 405ha site on Pulau Indah, Port Klang in 2003. PKA also bought the land from Kuala Dimensi for RM1.088bil, or at a rate of RM25 per sq ft on a "special value" basis. PKA has also filed a suit against Datin Paduka O.C. Phang, who was the general manager of PKA from 2001 to 2008 and also was the executive chairman of PKFZ, for breach of her fiduciary, contractual and common laws during her tenure with regard to PKFZ. The Government recently announced an 11-member special task force headed by Chief Secretary to the Government Tan Sri Mohd Sidek Hassan.

The task force will, among others, determine the type of misconduct or criminal element on the part of individuals or entities involved in the project and recommend actions to be taken against them. As of June, PKFZ was reported to have attracted investments worth RM1bil from 56 companies.

Monday October 26, 2009

The Auditor-General's report

A-G's report must be taken seriously

WHILE we continue to digest the numerous initiatives announced by the Prime Minister in the "1Malaysia, Together We Prosper" 2010 Budget, it is also wise for us not to lose sight of the 2008 Auditor-General's Report which was presented a few days earlier. Lest we forget, the report revealed an astonishing degree of mismanagement, abuse, misuse and wastage of public funds. As an ordinary citizen who contributes to the Government coffers in direct and indirect taxes, I join the chorus of calls for the authorities to treat the report with grave concern. We are not about to accept lame excuses or statements like "There was no abuse of funds. It was just the system". Steps should be taken to penalise those responsible for their sloppiness or indiscretion. New pragmatic measures must also be implemented to undo these weaknesses and ensure that such wrongs are not repeated. Government expenditure which emphasises value-for-money and projects that create high multiplier effects should be closely monitored so that they bring benefits to the people.

The Key Performance Indicators (KPIs), if practised effectively at all levels of the government ministries, departments and agencies, could perhaps enhance this endeavour. But at the end of the day, it is the political will of the powers that be, and not mere rhetoric, which will determine its subsequent success. The Government can come out with brilliant strategies to gear the nation towards a high-income economy while ensuring a holistic and sustainable development and protecting the people's well-being. But if the ones given the task to manage public funds do not discharge their duties responsibly, I am afraid all these well-thought of ideas and efforts will just go to waste.

Worst still it can become a liability to the country. Needless to say, the imminent victims will always be the *rakyat*. Thus, it is incumbent on the Government to show strong leadership in managing the 1.2 million-odd civil servants to ensure that as a people we can achieve the desired results. As the Prime Minister said, the needs of the people and the nation must always take precedence. Otherwise, the *rakyat* will continue to be disillusioned and this surely does not augur well for the much-acclaimed 1Malaysia.

Opinion - ZAMRI MAHMUD, Kuala Lumpur.

Monday October 26, 2009

The Auditor-General's report – Opinion – DMM Kuala Lumpur

Tourism Ministry must explain losses

I REFER to the Auditor-General's report in your article "Tourism Board making losses," (*The Star*, Oct 21.) The Tourism Promotion Board's losses amounting to RM41.9mil since 1976 through its investment arm Pempena smacks of inefficiency and poor planning in its promotional programmes. The Tourism Ministry should do due diligence and explain to taxpayers why they incurred such heavy losses and have not declared dividends for the last three years. Complacency seems to have crept into the system and is slowly eroding the fundamental trust the public have in it. Recently I was invited by a university celebrating World Tourism Day to a function where the ministry's director-general was the main guest.

After his speech, we viewed a video which grossly undermined what he was trying to promote. I was disappointed by the poor quality of the "Malaysia, Truly Asia" video. It showed a couple of boys playing along the beach during sunset, some Sarawakian dances and girls dancing in the darkness (perhaps it is an old copy) and massacred the beautiful Twin Towers (which were completely dark). I don't think foreigners will be convinced by this video. There was nothing beautiful about Malaysia in it. Where were the beautiful Twin Towers, the skyscrapers in Kuala Lumpur, the sprawling Putrajaya, the mosque and the many towering buildings with such magnificent architecture, Genting Highlands and Sunway Resort etc? I often come across foreigners who express their ignorance of such places. It's time to revamp the whole presentation, review the video and come out with newer versions every year. Spend the money with wisdom to promote Malaysia, truly Asia.

Tuesday October 27, 2009

Three PKFZ consultants cited

PETALING JAYA: The Port Klang Authority (PKA) has lodged complaints to the relevant professional bodies against three of its consultants involved in the Port Klang Free Zone (PKFZ) project. In a press statement issued yesterday, PKA chairman Datuk Lee Hwa Beng said the first complaint was to the Advocates and Solicitors Disciplinary Board of the Malaysian Bar against Messrs Rashid Asari & Co (RA), the solicitors who acted for PKA in the PKFZ land purchase and the development agreements between PKA and Kuala Dimensi Sdn Bhd (KDSB). He said RA had acted for Kuala Dimensi prior to acting for PKA. "PKA contends that there was professional misconduct on the part of RA in which it had put itself in a position of conflict of interest," he said, adding that this resulted in the company being biased in favour of Kuala Dimensi to the detriment of PKA.

The second complaint was to the Quantity Surveyors Board of Malaysia against Perunding BE Sdn Bhd regarding their failure to practice reasonable skill and care in undertaking a proper evaluation of the project costing and in the discharge of their professional responsibilities towards PKA. The third was to the Board of Architects Malaysia against BTA Architect Sdn Bhd in respect of various representations made negligently in the exercise of their professional duty as an architect.

Tuesday October 27, 2009

The Auditor-General's report - Opinion - M. GANESHADEVA, Kuala Lumpur.

Train audit teams well

I REFER to the news report "Najib pained over revelations" (*The Star*, Oct 23) in which Prime Minister Datuk Seri Najib Tun Razak was reported to have said that there would be action against those found to be non-performing or guilty of abusing government funds as highlighted in the Auditor General's Report 2008. The Prime Minister also expressed disappointment with the corruption, misconduct and abuse of public funds revealed in the report. Besides punishing the non-performers or those guilty of abusing public funds, action should also be taken to adequately train those in the departments tasked with carrying out internal audits on the nitty-gritty of carrying out proper audits.

The training should include an attestation audit to see whether financial statements show a fair picture of income, assets, liabilities and debts and a compliance audit to see whether rules and regulations that provide checks and balances to prevent misuse of funds and fraud from taking place. They should also be trained to carry out performance auditing in order to evaluate qualitatively and quantitatively whether the results achieved by the department are justified by the amount of money, manpower and time expended to achieve those results.

A well-trained internal audit team should be able to detect mismanagement and malpractices early, and nip in the bud any irregularities through timely, firm and effective departmental actions. The fact that the Audit Department is able to detect year in and year out the many cases of irregularities due to poor management is a poor reflection on the effectiveness and level of competence of the internal audit team in its present form, and the departmental administration. Once a properly trained internal audit team is in place in every government department and agency, the team and the top management of the department, should act with firm resolve and impartiality to stem the incidence of irregularities and malpractices.

Such irregularities often arise due to lax management and non-adherence to rules. There will always be those among the staff who would like to take advantage of lax management and poor departmental discipline for personal gain. Those in authority who, through their inaction allow management to deteriorate and thereby open the door for irregularities to take place, are guilty of dereliction of duty and should therefore be held accountable and liable as much as the wrongdoer himself.

Tuesday October 27, 2009

Reversion to old system will curb corruption – Sunny, Banting

THE Government has to rethink the way they run its various departments today, especially the way certain jobs are carried out. In the early days the Public Works Department, for instance, had workers on their payroll. As such, roadworks were carried out by their own workers who received their pay at the end of the month from PWD. Similarly, the jobs of cleaning drains, cutting grass along the roads and collecting rubbish were carried out by workers of the local town council. All the departments carried out their work this way. There was proper supervision and the workers were paid by their own departments and this system also held the department directly responsible for anything that was not right or properly done.

Today, all types of work are carried out by contracts awarded by the various departments to individuals as the main contractor with special licence. There are licences of various grades and these contractors carry out the work with workers employed by them. This system has resulted in the contractors employing foreign workers, depriving the locals of job opportunities. It is always said that the locals do not want to do such work, which is not true. I am sure if we revert back to the old system, many would seek employment because at the end of the day, the workers get their pensions and they also have quarters to stay in. Sometimes contracts are given to individuals and then the job is handed over to someone else to do. The main contractor becomes the middleman. There are also cases where individuals working in these departments register businesses under their family members' names and look for contracts. There are many unscrupulous ways in getting the tenders and they are open to lots of corruption.

The work is not well-supervised. It is carried out in a shoddy manner and the blame game goes on. The general public becomes the victim but only a few will voice out their unhappiness. So it's time the Government looks into the system and revert back to the old one as in the earlier days. This will reduce corruption, improve accountability and give the locals a chance to work and enjoy the privileges accorded to them.

Tuesday October 27, 2009

Meetings planned with ministries and agencies to check excess spending

By FINTAN NG

KUALA LUMPUR: Treasury officials will meet with their counterparts in other ministries and agencies over spending excesses and non-compliance with guidelines on procurement. Finance Ministry secretary-general Tan Sri Wan Abdul Aziz Wan Abdullah said Treasury officials would be meeting them from next month over problems that have cropped up in the procurement system. He said if wrongdoing was found, punitive measures, including imposing a surcharge for the excess costs, would be imposed. "We want to improve the Federal Government's procurement system by having more transparency and ensuring that there is more value for money," he said.

He was commenting on ministries and agencies where their spending excesses and non-compliance with Treasury guidelines on procurement were highlighted in the 2008 Auditor-General's report and the latest *Starprobe* report. He was speaking to reporters on the sidelines of the annual post-Budget dialogue hosted by the Malaysian Economic Association yesterday that checks and balances, including the internal monitoring system on spending by the respective ministries and agencies, have been under review since last month. "I'm also very concerned as this (excessive costs) happens every year," Wan Abdul Aziz said.

It is understood that from Sept 1, infrastructure projects valued below RM100mil would be handled directly by the ministry or agency concerned without having to go through the Finance Ministry. For procurement of supplies and services, it would be RM50mil and below. Previously, projects valued below RM50mil and procurement of supplies and services below RM30mil did not need Finance Ministry approval. Wan Abdul Aziz said this was to cut down on red tape and ensure that projects and procurement were approved faster. "Our priority will be on the open and restricted tender systems unless the procurement or project is for defence and security matters or if there's only one supplier in the country," he added. On another note, Wan Abdul Aziz said despite the cut in the Federal Government's operating budget for next year, core services would not be allowed to deteriorate. Prime Minister Datuk Seri Najib Razak had tabled an operating expenditure of RM138.3bil for Budget 2010, 14% below this year's allocation. "They've to maintain their core services so they'll have to prioritise given the tight budget," he said.

Tuesday October 27, 2009

Govt seeks new ways to manage assets

It is looking at monetisation to reduce operational and management cost of assets

KUALA LUMPUR: The Government is looking at monetisation to reduce the operational and management cost of its assets and facilities. Deputy Prime Minister Tan Sri Muhyiddin Yassin said monetisation was also one of the creative and innovative ways to optimise the usage of public facilities and increase asset value. "For example, idle public facilities in between usage can be rented out to the private sector or any other interested parties to generate revenue for the Government. "And half of the returns can be channelled to the related agencies under which the assets are governed and the remaining can go the Treasury," he said.

Muhyiddin was speaking to reporters after delivering his keynote address at the National Asset and Facility Management Convention 2009 yesterday. He said the Government was considering coming out with initiatives like new acquisition strategies, integrated planning and sustainable development under the comprehensive asset management concept. "This is to be implemented under the 10th Malaysia Plan (10MP) where new acquisition strategies will see more private finance initiatives (PFIs), adoption of the design-build-manage concept and public-private partnerships," he said.

Meanwhile, the integrated planning concept would be an alternative to optimise land usage and sharing of facilities where it would address the issues of rising cost and limited raw material supply, he added. "Sustainable development that focuses on energy efficiency and renewable energy via the implementation of 'green building' must be prioritised," he said.

Muhyiddin added that the public must take a proactive part in the maintenance of the country's assets and facilities worth billions of ringgit. He said the public could now directly contact the Works Department via its hotline, SMS or e-mail to report any problems regarding public facilities and national assets. To be in line with the ever-changing economic climate, Muhyiddin said the 10MP would be more flexible with a rolling-plan format. "This will ensure that we will be quick to act and make the right decision when facing any economic slowdown in the future," he said.

Meanwhile, former prime minister Tun Dr Mahathir Mohamad said PFIs were not something new to finance projects. "Any mega projects will have economic spin-offs to the contractors, sub-contractors and workers, among others. "If we do not have these projects, the economy of this country would not be where it is today. "From this economic stimulant, the private sector receives returns in terms of profits and the Government from various taxes," he said.

Tuesday October 27, 2009

PAAB seeks amicable understanding with Selangor water concessionaires

By YEOW POOI LING

PUTRAJAYA: Pengurusan Aset Air Bhd (PAAB) expects to secure an “amicable understanding” with the parties involved in Selangor’s water restructuring by year-end, said chief executive officer Ahmad Faizal Abdul Rahman. “We commenced due diligence on all the concessions (in Selangor) last week, and the process will take 21 business days. “The auditor’s report is expected to be completed by middle of next month and, hopefully, by year-end we can have some amicable understanding to move forward,” he said after yesterday’s signing ceremony between PAAB and CIMB Investment Bank for the former’s Islamic medium-term notes programme and Islamic commercial papers programme of up to RM20bil.

Selangor’s water sector consolidation reached a stalemate in August when the remaining two water concessionaires, Puncak Niaga (M) Sdn Bhd and Syarikat Bekalan Air Selangor Sdn Bhd, rejected the state government’s offers to take over their assets and liabilities. Selangor had hoped to consolidate the water sector before handing over the assets to PAAB, which is tasked by the Federal Government to lead the nationwide water restructuring by taking over the water assets and funding for capital expenditure, hence allowing state water operators to focus on providing services.

PAAB has so far completed the acquisitions in Negri Sembilan, Malacca and Johor, and is expected to reach a certain level of salient agreement with the other states in the country. It was anticipated to close the next water deals with Perlis, Kelantan, Perak and Pahang, Faizal said, adding that the cost of acquiring the water assets of these states would amount to RM10bil to RM15bil. The company would need to raise the second tranche of bonds in three to six months to finance those acquisitions, he said.

Its first tranche of RM2.5bil was priced at 2.7% for first-year, 4.4% for five-year and 5.05% for 10-year tenures. The order book was oversubscribed two times to RM4.15bil, with orders from a diversified base of investors. Meanwhile, CIMB Group chief executive Datuk Seri Nazir Razak said the demand for PAAB’s Islamic debt papers represented the strong appetite from investors for high-grade papers.

RAM Rating Services Bhd has placed a long-term rating of triple-A and short-term rating of P1 for the medium-term notes and commercial papers programmes respectively. Nazir said debt paper programmes launched this year totalled about RM79bil, of which RM40.5bil had been raised so far. Funds raised from the bonds market were likely to reach RM50bil by year-end versus last year’s RM48bil, he said, adding that next year’s fund size could be bigger since there were several new fund-raising programmes already in the pipeline.

He, however, appealed to market participants to “protect and preserve” the bonds market as a national treasure instead of seeking short-term gains and taking it for granted. “I’m particularly concerned over the market’s standards of transparency and corporate governance,” he said.

Tuesday October 27, 2009

Mixed reaction to property tax –

By ANGIE NG

Some say it will affect market while others consider it minimal

PETALING JAYA: The Government’s proposal to reimpose the real property gains tax (RPGT) may ensure a more balanced property market in the long run but industry players see it as counter-productive to the ongoing efforts to stimulate investments in the property sector. Under Budget 2010, the RPGT of 5% would be imposed from Jan 1 on gains from the disposal of real property irrespective of the holding period and category of owner. Prior to the exemption of the RPGT in April 2007, tax on gains from property sales was on a progressive basis from 30% to 0% depending on the holding period of the property. Industry players and analysts see the reinstatement of the RPGT as premature when the property market is just recovering from the global financial crisis.



Datuk Ng Seing Liong ... RPGT will adversely impact fragile market’s confidence level.

However, they hope the move to allow Employees Provident Fund (EPF) contributors to utilise their current and future savings in Account 2 for home purchase would compensate for the imposition of the RPGT. Real Estate and Housing Developers Association (Rehda) president Datuk Ng Seing Liong said re-instating the RPGT after a brief exemption period of less than three years would adversely impact the already fragile market’s confidence level among investors, both local and foreign. “Worse, the move is also a reinforcement of Malaysia’s infamous ‘flip-flopping’ property investment policies,” Ng added in a statement yesterday.

He urged the Government to review the RPGT proposal and carefully study the cost-benefit analysis of such a move before its implementation. Rehda also viewed the re-imposition of RPGT at 5% irrespective of number of years of acquisition as “punitive to owners of existing housing units who may have bought their properties decades ago.” Ng said the owners might want to sell their houses to upgrade to better properties or to relocate. HwangDBS Vickers Research said in a note yesterday the property tax was a “negative surprise” and would “dampen the velocity of transactions”.

Concurring with the view, CIMB Research said the 5% RPGT “was a shock to us as the Government had suspended RPGT 2½ years ago to give the property sector a boost and attract foreign purchasers.” Although the real property sector had enjoyed some measure of recovery in the past three to six months, the research house said transactions remained subdued and many developers had yet to undertake new project launches.

“The RPGT of 5%, although low, could make developers pause and gauge market conditions before taking the plunge, which would push back their earnings recovery. Also, the re-imposition of RPGT may stir fears of more RPGT increases in future years, which could have a compounding dampening effect on the sector,” CIMB Research added.

ECM-Libra described the reinstatement of the RPGT as a “shocker.” “This may dampen property buyers’ sentiment and may deter speculative activities to a certain extent,” it said in a note yesterday. According to Mah Sing Group Bhd group managing director Tan Sri Leong Hoy Kum, the waiver of RPGT since April 2007 had been effective in boosting sentiment and increasing domestic and foreign demand in the local property market as it had lowered the cost of property sales. As Mah Sing catered mainly to first-time home buyers, owner-occupiers and the upgraders’ market, Leong said it would not bear the brunt of the impact of the RPGT.

SP Setia Bhd president and CEO Tan Sri Liew Kee Sin said: “We cannot assume that purchasers who have bought these properties are going to sell upon completion. Many are first time buyers looking to set up a home and we also have many purchasers who are upgraders.” Liew said at 5%, the RPGT would not significantly impact decisions to buy or sell properties, regardless of the holding period.

“RPGT is a tax on gains derived and not proceeds received from the disposal of real property. The reimposition of the tax by the Government at this time indicates their confidence in the health of the sector and also that there are decent gains to be made from property transactions,” Liew added.

Sunway City Bhd managing director of property development Ngian Siew Siong concurred that a tax rate of 5% “is very minimal and should not be a deterrent to buyers and investors.” “Malaysia’s property prices are still comparatively lower than those in other regional countries,” he said.

However, Ngian wants gains from properties acquired more than five years ago to be exempted from tax, pointing out that those who kept their properties for over five years comprised mainly owner-occupiers and long-term investors who did not speculate in the property market. "After all, the RPGT was introduced to curb speculative buying and as such, owner-occupiers and non-speculators should not be burdened by it," he said.

Tuesday October 27, 2009

The Auditor-General's report

Lack of monitoring affects quality of drinking water in Malacca

By LOH FOON FONG

MALACCA: The lack of monitoring at water catchment areas had likely affected the quality of drinking water in Malacca, according to the Auditor-General's Report 2008. As the result of the lack of monitoring, Sungai Kesang and Sungai Melaka were recorded to be moderately polluted while Sungai Gadek was recorded clean for the period 2006 to 2008. The audit found that the responsibility to gazette water catchment areas and monitor the quality of water in the area was not included in the state's Regulatory Department (JKSAN). Hence, monitoring pollution along rivers and catchment areas would fall under the Environmental Department, and the Drainage and Irrigation Department, said the report.

No action could be taken against trespassers if the areas were not gazetted, added the report. It revealed that the water quality could be improved if the state government established a special committee to monitor the catchment area and stop people from going in and polluting the place. After the audit, Syarikat Air Melaka Berhad (SAMB) had issued a notification letter to JKSAN to gazette the catchment areas. According to the report, three water-catchment areas, Sungai Melaka, Sungai Batang Melaka and Sungai Kesang-Chohong were gazetted in 1992 but did not define the activities that were allowed in those areas. However, water collection areas - Jus and Durian Tunggal reservoirs - were not gazetted yet.

SAMB had prepared Guidelines on Development in Catchment Areas and Activities Not Allowed and handed over the Draft Gazette of Durian Tunggal and Jus dams to the Malacca Regulatory Department in April this year. The Audit also pointed out that the National Land Code allowed for the reserve land to be leased to local authorities for not more than 21 years but in June last year, the Privatisation Committee had approved the planting of *pokok karas* (gaharu) for 30 years at Jus Dam without proof of approval by the State Council Meeting and without environmental study done by the Forestry Department to determine if trees planted could affect the raw water quality. It also said that security issues too were not emphasised, building of sampling station was not based on specifications set by the Public Works Department while water distribution system for new residential areas by developers were not organised.

The water in Malacca was supplied by SAMB from 2006 to 2008 (SAMB was registered in July 2006). SAMB has six water-catchment areas and six water treatment plants. It was found that there was no detailed division of tasks between the state Jabatan Kawal Selia and SAMB on the management of water-catchment areas and collection areas.

Tuesday October 27, 2009

The Auditor-General's report

Weaknesses in Johor administration

By NELSON BENJAMIN

JOHOR BARU: The Auditor-General's report has identified weaknesses in the administration of the Johor state government and its agencies and has recommended measures to rectify them. According to the report, some of the weaknesses had previously been pointed out in 2007. The latest report stated that all the shortcomings and weaknesses could affect the image of the state government and must be rectified immediately to prevent wastage and mismanagement. The agencies audited include the Johor Religious Department, state Forestry Department, state Treasury, Johor Water Management Authority, State Secretary's Office, National Parks Corporation and several district councils.

Among the weaknesses identified were delays in gazetting permanent forest reserves, the development and clearing of forest reserves for estates and other economic activities which threaten the flora and fauna, water source being polluted due to poor enforcement in water catchment areas that have yet to be gazetted and poor development of low cost housing projects. It also noted weaknesses involving enforcement and monitoring of waste disposal services and poor tax collection.

The report stated that all the related government officials had been notified about the weaknesses and hoped that it could be used as a reference to rectify the shortcomings, improve and increase accountability and integrity. The report also urged civil servants in the state to carry out their duties professionally and meticulously to ensure all projects were completed on time using the Key Performance Indicators (KPI). It said proper monitoring measures must also be put in place to ensure all programmes and activities were successfully implemented and to rectify weaknesses. The Auditor-General also wants civil servants in the state to be committed and dedicated to their duties.