

**WEAKNESSES OF MALAYSIAN PUBLIC
PROCUREMENT: A REVIEW OF AUDITOR
GENERAL'S REPORTS**

BY

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A dissertation submitted in fulfilment of the requirement for
the degree of Master of Science (Accounting)

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ABSTRACT


Public procurement is an important government's activity that reflects crucial responsibility of the government in spending public funds to purchase goods and services to increase citizen's standard of living. However, from time to time there are reported issues on the weaknesses and limitations in the Malaysian public procurement. The aim of this study is to systematically analyze the weaknesses of public procurement in Malaysia reported in the Auditor General's Reports from 2011 until 2018. To achieve this objective, the researcher has looked into several specific matters which are 1) the issues reported in the Auditor General's reports regarding public procurement, 2) the modes of public procurement involved with the weaknesses of public procurement, 3) the procurement categories involved with the weaknesses of public procurement, 4) the federal ministries that have been significantly involved with the weaknesses of public procurement, 5) the level of satisfaction of the Auditor General towards public procurement and 6) the recommendations given by the Auditor General to improve public procurement activities. A quantitative research method was adopted to carry out the study, specifically with document analysis. The researcher used public records which are the Auditor General's reports; reports of activities of federal ministries/ departments published by the National Audit Department, Malaysia. The data gathered from the Auditor General's content analysis were analyzed using frequency distribution and displayed with descriptive statistics. The findings of the study revealed that the top 5 issues reported are 1) non-compliance to scope, specifications & terms of contracts, 2) delayed completion/ non-completion of project, 3) poor documentation, 4) low quality of products, service and work, and 5) little or no prior planning. It is also found that direct negotiation mode was reported with the highest issues of public procurement, while the procurement mode with the least public procurement weaknesses is direct purchase. Moreover, it was found that work category is the highest with public procurement issues reported compared to supplies and services. The current study also found that the top recommendations given by the Auditor General were 1) to improve internal control, 2) to enhance monitoring, 3) to establish planning in details, 4) to improve assets management and 5) to take appropriate actions towards contractors and procurement officers when needed. To assure more improvements in the public procurement activities to be made in the future, the government might come together with academicians in conducting comparative studies to address the weaknesses of public procurement activities in Malaysia. In conclusion, the current study contributes to the body of knowledge by examining the weaknesses of public procurement in Malaysia based on the Auditor General's reports. The empirical findings provided in this study can be used as a basis to further analyse possible improvements that can be made in the future.

مُلخَصُ البَحْث

المشتريات العامة نشاط حكومي مهم يعكس المسؤولية الحاسمة للحكومة في إنفاق الأموال العامة لشراء السلع والخدمات؛ لرفع مستوى معيشة المواطن، ولكن؛ قد يُبلغ عن قضايا تختص بنقاط الضعف والقيود على المشتريات العامة الماليزية، ويهدف هذا البحث إلى التحليل المنهجي لنقاط الضعف في المشتريات العامة في ماليزيا الواردة في تقارير المدقق العام بين عامي 2011-2018، ولتحقيق هذا الهدف؛ نظر الباحث في مسائل محددة؛ هي القضايا التي أُبلغ عنها في تقارير المدقق العام عن المشتريات العامة، وأنماط المشتريات العامة المرتبطة بنقاط الضعف في المشتريات العامة، وفئات المشتريات المرتبطة بنقاط الضعف في المشتريات العامة، والوزارات الاتحادية التي شاركت كثيراً في نقاط الضعف في المشتريات العامة، ومستوى رضا المدقق العام عن المشتريات العامة، والتوصيات التي قدمها المدقق العام لتحسين نشاطات المشتريات العامة، واعتمد أسلوب البحث الكمي لإجراء البحث، وتحديدًا؛ أسلوب تحليل الوثائق، واستخدم البحث السجلات العامة؛ أي تقارير المدقق العام، وتقارير عن نشاطات الوزارات والإدارات الاتحادية التي نشرتها إدارة التدقيق الوطنية في ماليزيا، وحُللت البيانات التي جُمعت من تقارير المدقق العام باستخدام توزيع التردد والإحصاءات الوصفية، وكشفت النتائج أن أهم خمس قضايا أُبلغ عنها؛ هي عدم الامتثال للنطاق والمواصفات وشروط العقود، وعدم اكتمال المشروع أو تأخره، وضعف التوثيق، وتدني جودة المنتجات والخدمات والعمل، وعدم التخطيط المسبق أو ضعفه؛ وتبيّن أيضاً أنه أُبلغ عن أسلوب التفاوض المباشر المتعلق بأهم قضايا المشتريات العامة، في حين أن أسلوب الشراء المباشر ينضوي على أقل نقاط ضعف في المشتريات العامة، كما تبيّن أن فئة العمل هي الأعلى بين قضايا المشتريات العامة من حيث الإبلاغ عنها مقارنةً بفئتي الإمدادات والخدمات، وأخيراً؛ كان من أهم التوصيات التي يقدمها البحث للمدقق العام؛ تحسين الرقابة الداخلية، وتعزيز المراقبة، ووضع خطط مفصّلة، وتحسين إدارة الأصول، واتخاذ الإجراءات المناسبة تجاه المقاولين وموظفي المشتريات عند الحاجة، ولضمان مزيد من التحسينات في نشاطات وختامًا، يضيف هذا البحث نتائج جديدة إلى المجال المعرفي المشتريات العامة التي ستُجرى في المستقبل؛ من خلال فحص نقاط الضعف في المشتريات العامة في ماليزيا؛ بناءً على تقارير المدقق العام، ويمكن استخدام النتائج التجريبية الواردة في هذا البحث أساسًا لمزيد من التحليل عن التحسينات الممكنة التي يمكن إجراؤها في المستقبل.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science (Accounting).


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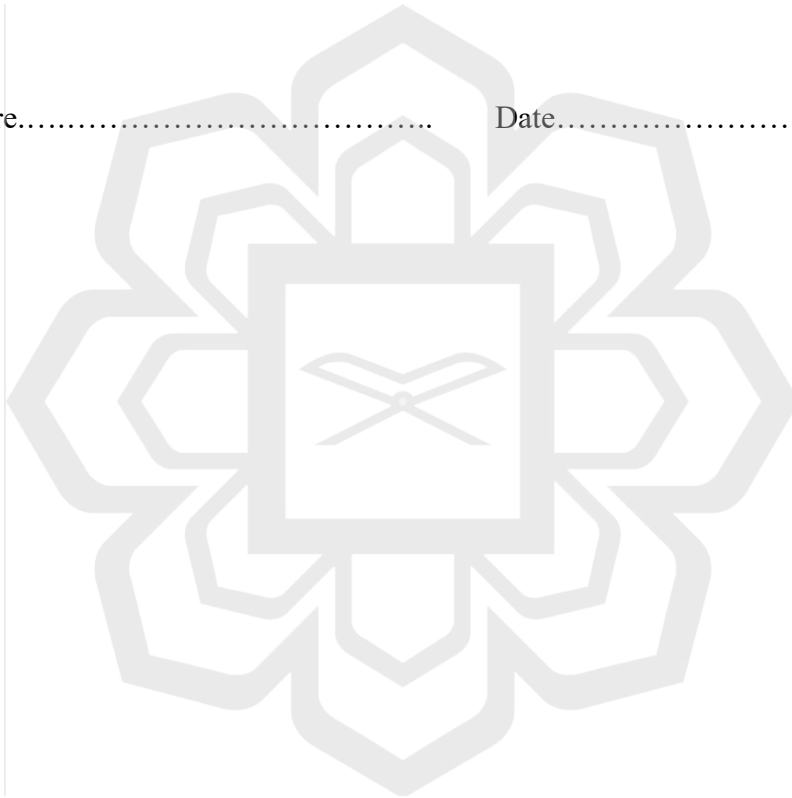
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DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degree at IIUM or other institutions.

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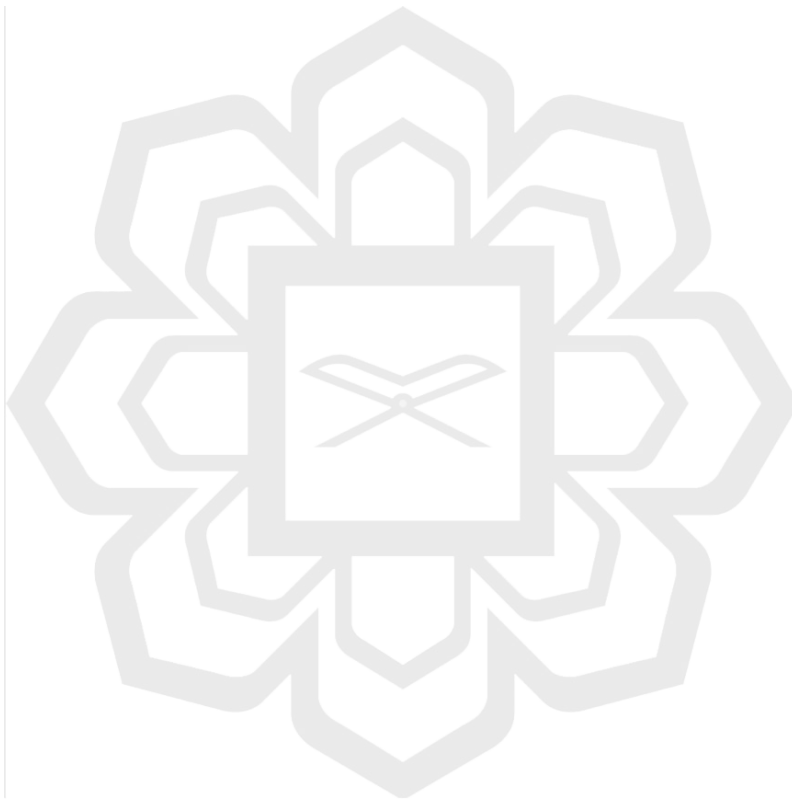
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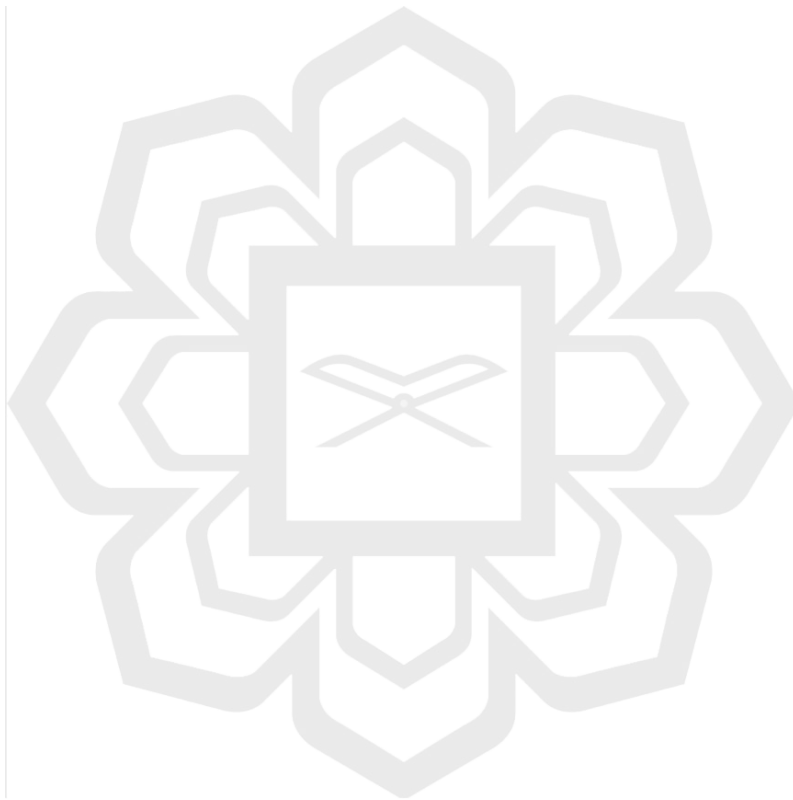
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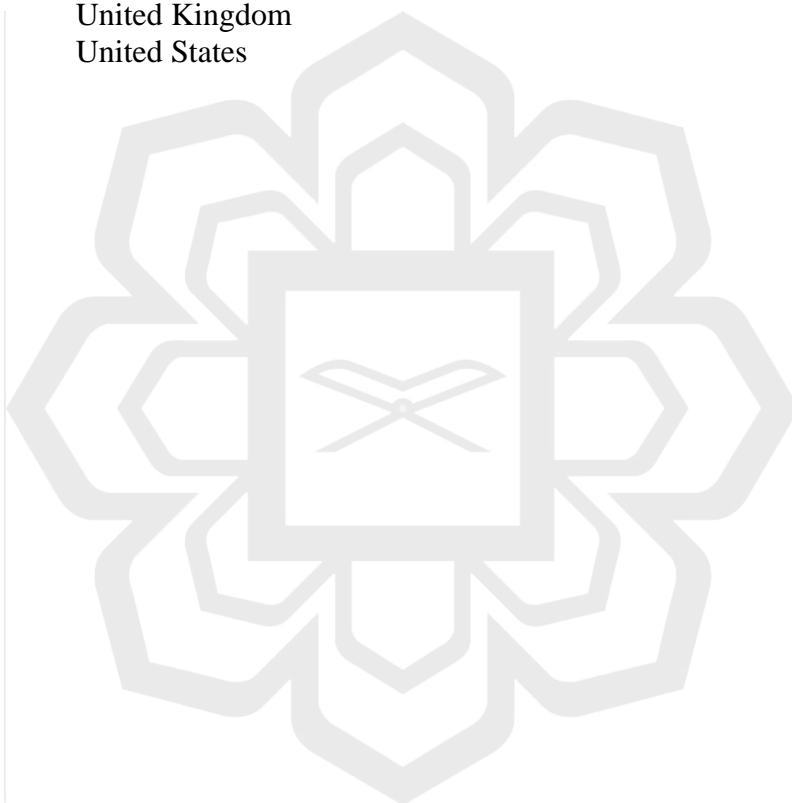
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LIST OF ABBREVIATIONS

APB	Agency Procurement Boards
EU	European Union
GDP	Gross Domestic Products
IAPWG	International anorectal physiology working group
IDEAS	Institute for Democracy and Economic Affairs
MACC	Malaysian Anti-Corruption Commission
MCMC	Malaysian Communications and Multimedia Commission
OECD	Organization for Economic Co-operation and Development
PAC	Public Accounts Committee
UK	United Kingdom
US	United States



CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This chapter provides the overview of issues in the Malaysian public procurement particularly on the weaknesses. It consists of six sections. Section 1.2 presents the background of the study. Section 1.3 provides the problem statement of the study, followed by the motivation of the study in Section 1.4. Next, Section 1.5 presents the research objective and research questions. Section 1.6 discusses the significance of the study and lastly Section 1.7 presents the organization of the thesis.

1.2 BACKGROUND OF THE STUDY

Public procurement is a crucial responsibility of the government in spending public funds to purchase works, goods and services to increase citizens' standard of living (Khan, 2018). Public funds come from various sources, mainly from taxes; income tax, companies tax and duties. These resources are expected to contribute back to the societies such as providing sufficient public facilities and numerous developments. Almost every year, Malaysia spends at least RM150 billion for procurement which is equal to one fourth (25%) of the its gross domestic product (GDP) (Jones, 2013).

There are four modes of procurement that are commonly used in Malaysia; direct purchase, quotation, tenders and direct negotiation (Ministry of Finance Malaysia, 2010). All of them vary depending mostly on the amount as well as types of the procurement. Direct purchase method can only be used for goods and services with cost not more than RM20,000 per year while RM50,000 per year for works. Quotation

method usually involves acquisition of both goods or services and work with the cost of at most RM500,000. Anything more than RM500,000 must be conducted through tenders. Lastly, direct negotiation is applied only when the items needed can be supplied by only one supplier due to expertise and credibility issues (Ministry of Finance, 2010; Institute for Democracy and Economic Affairs (IDEAS), 2018). All the four modes are implemented for three categories of public procurement in Malaysia which are works, goods and services. Works include any construction work for infrastructures such as buildings, roads and electrical works. Goods include acquisition of everyday supplies for instance vehicles and office equipment while services are classified as consulting services and non-consulting services (Mansor, 2008; Ministry of Finance, 2010).

The Treasury of Malaysia has stated five objectives of public procurement which are: 1) to ensure continuous supply of materials and services to meet the government needs from the best and reliable sources; 2) to ensure efficient, effective and ethical procurement practices to enable the Government to achieve best value for money without compromising on quality, delivery and other price and non-price factors 3) to stimulate and encourage the growth and development of local industries through the optimal usage of local resources and materials 4) to expand and invigorate the local industrial sector by means of transfer of technology and expertise to suit the nation's needs and 5) to promote alternative and multiple sourcing through supplier/vendor development according to the aspirations and vision of the government (Ministry of Finance Malaysia, 2010).

In ensuring the achievement of the stated objectives, the procurement activities of Malaysian government are governed by the Government Contract Act 1949, Financial Procedure Act 1957 and Supply Act 1957 (Shariman et al., 2017). These acts provide guidelines to government agencies on how to conduct agreements and supplies

for works, goods and services. Moreover, the government has specified five principles that must be complied in every procurement activity which are transparency, competition, public accountability, value for money and fair dealings (Ministry of Finance Malaysia, 2010).

With the specified objectives, principles, rigorous guidelines and procedures constructed in implementing procurement activities, there are however still many weaknesses and limitations in the Malaysian procurement system. For example, Malaysian Communications and Multimedia Commission (MCMC) was found to spend nearly RM13 million on projects unrelated to its job scope over a two year period (Malaysian Wireless, 2019). Likewise, incompliance with the procedures, lack of transparency, corruptions and professionalism deficiency were found to be the significant issues in public procurement (Hui et al., 2010; Jones, 2013). IDEAS (2018) found out that non-compliance to contracts regulations was found to be the most serious issue for Malaysian public procurement. Not only that, Shariman et al. (2013) mentioned that public procurement is facing the problems of poor-quality control, resources wastage and unreasonable process charged. Besides, issues regarding public procurement are also frequently reported in the news. For example, Mymetro (2018) reported an issue on tenders abuse while Berita Harian (2020) reported a case on incompliance with procurement procedures. In light of the above, there is a need to examine the issues of public procurement in depth and consider the given recommendations for each of the issue too.

1.3 PROBLEM STATEMENT

In spite of all the efforts taken in improving the efficiency of procurement activities, public procurement in Malaysia is still far behind and inadequate to meet expected

standards (Jones, 2013). This is due to the reasons that there are still many weaknesses with the current implementation of public procurement activities. Every year, there have been issues related to public procurement reported in the Auditor General Reports. At least twice a year, the public witness examples of badly governed procurement practices and their costs in the Auditor General's Reports (The Malaysian Reserve, 2019). Not only that, issues regarding public procurement have always been the focus points in the newspapers (Mymetro, 2018; New Straits Times, 2019).

Examples of significant issues on public procurement are issues of transparency, corruptions and professionalism (Shariman et al., 2017; Jones, 2013). Procurement sector has recorded the highest corruption complaints received by the Malaysian Anti-Corruption Commission (MACC) within the year 2013 and 2018 (The Star, 2019; The Sun Daily, 2019; Astro Awani, 2019). Besides that, the president of Transparency International Malaysia, Tan Sri Dr. Ramon V. Navaratnam, called upon the government to immediately review the procurement system to ensure transparency and accountability in all government expenses and procurement (Transparency International Malaysia, n.d.). Other prior studies also agreed that lack of transparency accountability and high level of corruptions are among major weaknesses in the public procurement in Malaysia (Othman et al., 2010; Hui et al., 2011; Thai, 2001).

Considering the critical problems concerning public procurement, this study aims to systematically analyze the common issues on weaknesses of public procurement based on the Auditor General's Reports. The following section discusses the motivation to carry out this study.

1.4 MOTIVATION OF THE STUDY

There are several factors that motivate the current study. Firstly, public procurement plays a significant role in the economic development of Malaysia and the amount of money spent every year amounted to about one-fourth of its nominal GDP. The enormous amount of money involved in the government procurement and the fact that the money comes from the public, it needs accountability and transparency, which are not only national issues, but are also common global issues. It stimulates the researcher to dig deep about this matter in order to ensure procurement activities are implemented efficiently for the sake of the citizens and the country.

Secondly, The National Audit Department is responsible to conduct performance audits of procurement activities by different ministries/ departments as well as statutory bodies under the Auditor General. This is to make sure the activities are implemented economically and reached the intended objectives. Every year, the National Audit Department discloses a number of weaknesses of every procurement activity that have been audited evidently. Besides, to ensure that the weaknesses are not repeated in the future, recommendations for improvement are also presented in the reports. In spite of the efforts that have been done by the Auditor General, the weaknesses in procurement activities keep occurring implying that the government procurement system in Malaysia is still inefficient. Thus, this situation motivates the researcher to closely study the highlighted procurement issues.

Lastly, although public procurement is one of the major roles of the government, it is still regarded as being a neglected area of academic education and research (Thai, 2001; Trammell et al., 2019). The field of public procurement only makes up about 1% of public administration literature (Trammell et al., 2019). Therefore this study intends to contribute to the literature on public procurement specifically on issues of public

procurement in Malaysia, based on the Auditor General's Reports. The next section discusses the research objective and research questions of this study.

1.5 RESEARCH OBJECTIVE AND RESEARCH QUESTIONS

The research objective of this study is as follow:

To systematically analyze the weaknesses of public procurement in Malaysia reported in the Auditor General's Reports from 2011 until 2018.

In achieving the research objective, the following six research questions are formulated:

1. What are the weaknesses reported in the Auditor General's Reports regarding public procurement?
2. Which modes of public procurement are involved with the weaknesses of public procurement?
3. What are the procurement categories involved with weaknesses of public procurement?
4. Which federal ministries have been significantly involved with the issues of public procurement?
5. What is the level of satisfaction of the Auditor General towards public procurement activities?
6. What are the recommendations given by the Auditor General to improve public procurement activities?

1.6 SIGNIFICANCE OF THE STUDY

This study is expected to give contributions to several parties including the government, government contractors/ suppliers, academicians, students and the public.

Firstly, the empirical evidence from the study will deliver a proposition of the areas that need improvements related to public procurement. The findings will give information regarding the weaknesses of public procurement to the government specifically. Other than that, academicians can obtain comparative analyses for further research on the weaknesses of public procurement in the future.

Next, the findings will create more awareness towards Malaysian civil servants about how important are their contributions to the society. It is expected that civil servants to be more understanding that their integrity and accountability in performing their work are really significant as it could affect the government's spending. Efficiency in civil servants' services is one of the factors for the effectiveness of the government fund usage.

Moreover, this study is predicted to lay out suggestions on improving public procurement activities in Malaysia. The findings from the study will be useful as the foundation to rectify current weaknesses of public procurement. The main users of public procurement, which are the government as well as the suppliers will have the ability to improve the weaknesses of public procurement to make sure public funds are well managed.

Lastly, this study will provide more understanding of issues on weaknesses of public procurement in Malaysia for academicians, students and the public. The study will offer a clear picture regarding the trend of common public procurement issues, categories and modes of procurement related with these issues. The next section presents the organization of the study.

1.7 ORGANIZATION OF THE STUDY

The study comprises of five chapters which have been organized as follows:

The current chapter is the introductory part of the study. It explains the background and is followed by the motivation for the study, the research objective, research questions and the significance of the study.

Chapter Two reviews prior literatures related to public procurement. The literature review discusses the modes of public procurement, the principle of public procurement and process in procurement projects. It also reviews prior studies on the weaknesses of public procurement and lastly identifies the gaps in the literature.

Chapter Three explains the theoretical framework and the research methodology applied in this study. Information about the sources of data and data analysis process are detailed in this chapter. It also discusses the data collection, research design and evaluation system used in the study.

Chapter Four presents the findings and the analyses of the results. The statistical results are thoroughly discussed in this chapter.

Lastly, Chapter Five discusses the conclusion and limitations of the study. The implications and contributions of this study are also presented and at the end of the chapter, the study concludes with recommendations for potential future studies.

1.8 CHAPTER SUMMARY

In conclusion, this chapter has explained the inductions of the study. It includes introduction, background of the study, problem statement, motivation of the study, research objective as well as research questions, significance of the study and lastly organizations of the study. Next, Chapter 2 provides prior literatures related to this study.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews prior studies on public procurement. It contains eight sections. Section 2.2 discusses public procurement, which includes public procurement principles and public procurement process. Section 2.3 presents public procurement in Malaysia that contains modes of public procurement and the procurement boards in Malaysia. Section 2.4 provides an overview of accountability in public procurement. Section 2.5 presents prior studies on different areas of public procurement related to the current study such as the importance of public procurement, transparency, accountability and corruption in public procurement, weaknesses in public procurement activities and the implementation of e-procurement. Section 2.6 explains prior studies on public procurement specifically in Malaysia. Section 2.7 highlights the gaps in the literature and section 2.8 summarizes the chapter.

2.2 PUBLIC PROCUREMENT

Public procurement is defined as acquiring of goods, services and works by the government. Public procurement includes constructions of buildings, advisings, expert services, items supply, property and leasing and capital expenditure by the government (Ashari, 2013; Abdullah et al., 2011). The process of public procurement covers the whole life cycle of the goods and services, starting from identifying the needs of procurement until the end of the services or the end of the useful life of an asset (Abdullah et al., 2011).

Activity of public procurement is an important element in the developing world. Public procurement covers 8% of the GDP in the Organization for Economic Co-operation and Development (OECD) countries and 16% in the European Union (EU) GDP (OECD, 2000; Afonso et al. 2005; European Commission, 2017). For example, the United State (US) federal spends approximately US\$200 billion per annum for public procurement (Pegnato, 2003) while the total for both local and state government is about US\$1 trillion (Coggburn, 2003). According to Nicol (2003), developing countries spend on average, 15% of their GDP on public procurement every year. Furthermore, The OECD Development Assistance Committee (2003) estimated that the total amount of worldwide public procurement is at 8% out of the global GDP of US\$40 trillion. In the Middle East and North Africa region, public procurement accounts within 15-20% of their countries' GDP (Krause & Tutunji, 2014) while Korea spends approximately 10% of its country's GDP on public procurement (Choi, 2010). As for Malaysia, the country spends more than RM150 billion every year on public procurement which is equal to 25% of its nominal GDP (Jones, 2013; Ministry of Finance, 2012).

As public procurement utilizes a huge amount of public money, it is inevitably a politically sensitive activity (Schapper et al., 2006). The attempts to depoliticise public procurement seems to have various barriers. For example, the decisions for public funds distributions involve financial complications to various regional and sectional constituencies and it invites enormous political interest (Schapper et al., 2006). Therefore, with only a slightly low value performances failures in public procurement would bring a substantial effect to political significance than pandemic inefficiency (Osborne & Gaebler, 1992; Schapper et al., 2006). To smoothen the management of public procurement, public procurement principles have been introduced and applied