

PERDANA DISCOURSE SERIES 14

# **'ENHANCING ACCOUNTABILITY & INTEGRITY IN THE MALAYSIAN PUBLIC SECTOR - ARE WE DOING ENOUGH?'**

Keynote Address by  
Tan Sri Dato' Setia Haji Ambrin Buang  
Auditor-General of Malaysia

Perdana Leadership Foundation, Putrajaya



PERDANA  
LEADERSHIP  
FOUNDATION  
YAYASAN  
KEPIMPINAN  
PERDANA

TUN DR. MAHATHIR MOHAMAD

# 'ENHANCING ACCOUNTABILITY & INTEGRITY IN THE MALAYSIAN PUBLIC SECTOR – ARE WE DOING ENOUGH?'

PUSTAKA PERDANA



1009576

A Publication of



PER ANA  
LEA E SHP  
FOUNDATION  
YAYASAN  
KEPIMPINAN  
PERDANA



PERDANA  
LEADERSHIP  
FOUNDATION  
YAYASAN  
KEPIMPINAN  
PERDANA

©Perdana Leadership Foundation (PLF), 2012

All rights reserved. No part of this publication may be reproduced, copied, stored in any retrieval system or transmitted in any form or by any means – electronic, mechanical, photocopying, recording or otherwise; without prior permission in writing from Perdana Leadership Foundation (PLF, No. 1, Jalan P8H, Precinct 8, 62250 Putrajaya, Wilayah Persekutuan, Malaysia).

E-mail: [Perdana@perdana.org.my](mailto:Perdana@perdana.org.my)

Website: [www.perdana.org.my](http://www.perdana.org.my)

Perpustakaan Negara Malaysia

Cataloguing-in-Publication Data

Enhancing accountability & integrity in the Malaysian public sector - are we doing enough?

(Perdana discourse series; 14 2012)

ISBN978-967-10612-2-0

1. Integrity. 2. Professional ethics. 3. Malaysia-Social policy.

I. Yayasan Kepimpinan Perdana. II. Series.

179.9

Editors	Zarina Abu Bakar Izyan Syazwani Mohamad
Transcribers	Suhana Mat Tehor Khairun Nisa Kamal Nurul Nawar Mahshos
Cover design	Ruzanaliza Abd Ghani
Typeface	Futura BT
Type size	Nine
Published by	Perdana Leadership Foundation (Yayasan Kepimpinan Perdana) No. 1, Jalan P8H, Precinct 8 62250 Putrajaya, Wilayah Persekutuan Malaysia

Printed by Percetakan Lai Sdn Bhd

179.9  
811-1

# PERDANA DISCOURSE SERIES 14/2012



Tunku Abdul  
Rahman Putra  
Al-Haj

Tun Dr. Mahathir  
Mohamad



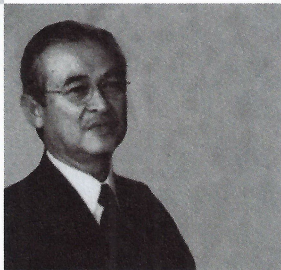
Tun Abdul Razak  
Hussein



Tun Hussein Onn



Tun Abdullah  
Ahmad Badawi



Organised by:

Sponsored by:



# CONTENTS

**Prologue**

**Welcome Address**  
**Tan Sri Dato' Seri Azman Hashim**  
**Chairman, Board of Trustees,**  
**Perdana Leadership Foundation**

**Keynote Speech**  
**Tan Sri Dato' Setia Haji Ambrin Buang**  
**Auditor-General of Malaysia**

**Question and Answer Session**

**Panel Session**  
**Moderator**  
**Puan Zuraidah Haji Musib**

**Panellists**  
**Dato' Seri Azmi Khalid**  
**Datuk Dr. Ir. Ahmad Zaidee Laidin**  
**Datuk Paul Low Seng Kwan**  
**Ms. Khairiah Mokhtaruddin**

**Panel Question and Answer Session**

**Profile of Keynote Speaker**  
**Profiles of Panellists**



## PROLOGUE

### Perdana Discourse 14: Enhancing Accountability and Integrity in the Malaysian Public Sector – Are we doing enough?

Integrity and accountability are the major components of ethical conduct in any organisation. The issue of ethical conduct of public employees, in particular, receives a great deal of attention from international, regional and national organisations. This calls for reforms on public sector institutions to strengthen integrity, transparency and accountability, and to prevent and combat corruption. Such reforms are crucial in protecting public resources, enhancing public sector performance, and strengthening government effort in providing basic services and meeting the needs of the people.

Integrity and corruption are two opposing sides of human conduct. The likelihood of either of these conducts is primarily determined by many factors: policies, regulations, conditions, common practices, incentives/penalties as well as the prevailing norms and institutional culture. Enhancing integrity or ethical conduct and reducing corrupt or unethical behaviour among public sector employees have to start with the diagnosis and reform of their working environment.

Developing countries, in particular, face many obstacles in acquiring a larger share of the world trade and investment. The most serious ones, perhaps, are the inefficiency and ineffectiveness of the public sector, which invariably lead to endemic corruption. It requires better governance to effectively control corruption. But, combating corruption is not an easy task because of the hidden political ramifications.

For overall reforms, a government needs to revitalise and transform the management of its public sector resources. Since human factor is crucial for the public sector, it is imperative that its human resources management (HRM) be transformed at the same time. Among the causes for deficiencies in HRM are failure to enforce basic principles of ethics, integrity and accountability, and the absence of clearly-defined and enforced policies to promote professionalism among the employees. Under this situation, the system is vulnerable to malpractices and corruption, hence its inefficiency.

This Perdana Discourse Series 14 deliberates on the efforts and achievements in enhancing the accountability and integrity of Malaysia's public sector, two critical ingredients for improving government performance, in general, and combating corruption, in particular. Among the issues to be raised in this deliberation are: (1) the strategies needed to promote integrity in the public sector; (2) the preventive measures undertaken to combat corruption; and (3) the success of these strategies and preventive measures.

## WELCOME ADDRESS



Tan Sri Dato' Sri Azman Hashim  
Chairman, Board of Trustees, Perdana Leadership Foundation

Bismillahirrahman-nirrahim. Assalamu'alaikum Warahmatullahi wabarakatuh and a very good morning.

I welcome you to Perdana Leadership Foundation and to the 14th Perdana Discourse Series.

Ladies and Gentlemen:

1. The subjects of Integrity and Accountability have been the recent focus of numerous dialogues, debates and exchanges on the Malaysian public sector.
2. The cost of corruption is huge: the World Bank estimates that corrupt transactions are around US\$1 trillion a year worldwide. This figure does not include embezzlement of public funds or misuse of public assets. It's a massive sum to be sure. And worse, the cost of corruption is not just in monetary terms; corruption is correlated to weak governance, poor quality infrastructure, a slower pace of poverty reduction and slower development.
3. Let me just mention about the Corruption Perceptions Index. This Corruption Perceptions Index (CPI) 2011 was released on 1 December 2011 and produced by the Transparency International (TI) Secretariat based in Berlin. The Index ranks countries in terms of the degree to which corruption is perceived to exist among public sector officials in 192 countries around the world.

- In the CPI 2011, the sources are from Asian Development Bank, African Development Bank, Bertelsmann Transformation Index, Economist Intelligence Unit, Freedom House, Global Insight, IMD World Competitiveness Yearbook, Political and Economic Risk Consultancy, Political Risk Services International Country Risk Guide Survey, Transparency Bribe Payers Survey, World Bank, World Economic Forum and the World Justice Project Rule of Law Index.
  - Malaysia's performance in CPI 2011 was ranked 60th (2010: 56th) out of 183 (2010: 178) economies. Malaysia's ranking has steadily got worse – from position 33 in 2002 to No. 60 last year. From 2007 to 2011, we deteriorated from 43 to 60.
4. All these indicate that a good way to boost development would be to reduce leakages in public funds of which corruption is one. In fact, researchers estimate that there is a "400% governance dividend" of good governance – countries that have greater control of corruption and rule of law can expect in the long-run a four-fold increase in incomes per capita.

Ladies & Gentlemen,

5. I like to mention an example of Good Governance, Transparency and Accountability in Singapore: The Review of Singapore's Ministerial Salaries
- Three guiding principles for the political salaries are:
    - Salaries must be competitive so that people of the right calibre are not deterred from stepping forward to lead the country;
    - Ethos of political service entails making sacrifices and hence there should be discounts in the pay formula;
    - There should be a "clean wage" with no hidden perks.
  - The recommendations accepted by Parliament are:
    - A new benchmark, which is based on the median income of the top 1,000 earners who are Singapore citizens with a 40% discount to reflect the ethos of political service;
    - Removal of pension scheme for politicians;
    - A new salary framework and National Bonus linked to the socio-economic progress of average and lower income Singapore.
  - Key outcomes of the new framework are:
    - The President's total annual salary is reduced by 51% and the Prime Minister's total annual salary by 36%. President's annual pay will now be 70% that of the Prime Minister;
    - The entry level Minister's total annual salary is reduced by 37%.

- Access to Information by the Public:
  - The Prime Minister periodically provides information on the performance bonuses for ministers across the different bands. This provides the public assurance that the salary framework is being applied in a fair and reasonable way.
- Ministers and other political appointment holders, from Parliamentary Secretary to Deputy Prime Minister, will get a pro-rated national bonus of 1.618 months in March 2012.
- All political appointment holders (Parliamentary Secretary to Deputy Prime Minister) will get the same National bonus rate to reflect their joint contributions as part of the Cabinet. The Prime Minister will get twice the rate as he does not get a performance bonus.

Ladies & Gentlemen,

6. Given the ill effects of corruption, good governance then, particularly in the public sector, is key for Malaysia to become a high-income nation by 2020. As such, the Perdana Leadership Foundation feels it timely to dedicate one whole Discourse to the subject of public sector accountability and integrity.
7. We are very honoured that we have a distinguished civil servant, the Auditor-General of Malaysia himself to be our keynote speaker for today: Tan Sri Dato' Setia Haji Ambrin Buang, who through his experience at auditing government Ministries and agencies each year will no doubt shed much light on the topic.

Tan Sri,

The public always looks forward to reading your Audit Reports on the Government, the Ministries, Agencies Bodies. We are also often amused by the strident denials from the relevant heads of Government Agencies Bodies that sometimes appear in the press. Being a Chartered Accountant and an Auditor before, I know that we can rely 100% on your Audit Reports to have been made after careful inspection and investigation of all relevant facts before you came to your conclusions and opinion which is always "true and fair". Please keep up the good work, Tan Sri, we are all behind you!

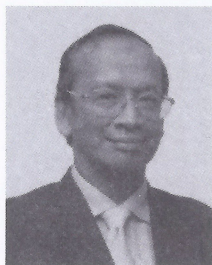
8. I also welcome eminent panellists, Yang Berhormat Dato' Seri Azmi Khalid, who can tell us more about the role of the Public Accounts Committee he is heading in enforcing accountability; Yang Berbahagia Dato' (Insignior) Dr. Ahmad Zaidee Laidin, Chairman of Enrico who is the former Vice Chancellor of UiTM; Yang Berbahagia Dato' Paul Low, President of Transparency Malaysia and Cik Khairiah Mokhtaruddin, Senior Researcher at the Razak School of Government.

9. I believe we can all look forward to an interesting keynote and dialogue session today that will provide a deeper appreciation of the wider issues this country is facing and will mould a cadre of responsible young leaders who will uphold sound ethical values.
10. Apart from programmes such as this Discourse, the Foundation actively digitises documents, speeches, policy papers and audio video materials on our past Prime Ministers. To date, we have digitised more than four hundred thousand documents. Most of our materials are available on-line, as part of our goal to make history accessible to all Malaysians.
11. I would like to thank our partner, Universiti Teknologi MARA, for working together with us throughout the Series to ensure the success of this programme. A big thank you, too, to our Discourse Sponsor, PROTON, without whose support the Discourse would not have been possible. (I trust PROTON will continue their sponsorship after their recent corporate exercise.)
12. I hope that we will leave today's Discourse with a renewed commitment to making Malaysia a better country for all.

Thank you.



## KEYNOTE SPEECH



Tan Sri Dato' Setia Haji Ambrin Buang  
Auditor-General of Malaysia

I have chosen to speak on this topic basically to invite you, the audience today, to ponder on some of the real issues facing our public sector performance, particularly in the manner public money is handled. In raising this question, we here refer to public sector auditors, whether they are with Jabatan Audit Negara or with the Internal Audit division/unit in the various ministries and government agencies. Of course, one must realise that auditors are not the only players in this game of enhancing accountability and integrity in the public sector. Members of the administration (anggota pentadbiran), the Secretary Generals and the Directors-General and the CEOs of statutory bodies who are the Controlling Officers, the Parliament and state legislatures and their Public Accounts Committee, the media and the larger civil society too do have and should play their expected role.

2. The reason why this question is being asked now, and I can assure you it's always on my mind, has to do with increasing public awareness, if not concern, regarding weaknesses in public sector financial management and service delivery by the country's public servants as revealed by the AG in his annual report to Federal Parliament and State legislatures. Each year, the AG Report, I am told, is eagerly awaited by the public at large who are increasingly vocal about the perceived inaction by the relevant government agencies to rectify the weaknesses exposed by the AG.
3. Many of you will know that the duty of public-sector auditors is to point out the flaws, excesses and wastefulness of Government agencies and ministries. Not all of these things are due to corruption or fraud, of course, but the AG Reports do show glaring examples of careless spending of taxpayers' money, something one newspaper columnist even described as spending like it's your own grandfather's money.

4. I think many people would suspect that what is in the audit report represent only a *fraction of reality, a tip of the iceberg* so to speak and seldom an isolated case. They may be right considering that auditing worldwide is always done through sampling and therefore auditing will not cover every government agency and project, which are numerous in this country. So it is not difficult for someone to presume that such things have gone viral and ask the question: who is really looking after those not covered by the AG Report?
5. Because of resource constraints, *external audits undertaken by JAN are limited in coverage* and therefore internal audits should complement JAN efforts, but then again internal audits also face resource constraints. Thus, departmental and agency heads themselves should do their utmost to strengthen in-house scrutiny and monitoring over how public money entrusted to them is wisely spent!
6. Another burning question that often arises is what really happens to those responsible for all the wastefulness, extravagance and fraud highlighted by audits, be they high profile cases like PKFZ, NFC, the Tuna port project and Pempena or not so high profile cases? How many people have been taken to court, how many have had disciplinary action taken against them? Some may even feel that there is no point for the AG to prepare his report when at the end of the day nothing happens! To them, it is the same story each year because the public service has not really bucked up from indifference and slumber, although it must be pointed out that, yes, the issues raised by audit tend to be similar each year but the auditors are not the same each year.
7. Because of all these things, public sector auditors must respond to the rising public expectations with regard to greater accountability and transparency in public spending by members of the administration and public servants by enhancing their professionalism. Besides government departments and agencies, the public also wants greater accountability and transparency from government-owned or government-linked companies. Using the Sime Darby case as an example, despite having heavyweight personalities on the Board and the Audit Committee as well as an internal audit, hundreds of million ringgit have been lost due to suspected fraudulent practices. How come?
8. Public sector auditors can certainly do more. Under present circumstance they must do more. This is the challenge. I say this because they, as custodians of public trust, and being independent and professional, are in a good position to help the nation spend wisely. More so with the explicit Government encouragement of good governance, accountability and integrity in the public service.

9. Before I elaborate, perhaps it is useful for me to give you some insight into some of the things that the government and public sector auditors are currently doing towards the cause of good governance, accountability and transparency.
10. Firstly we have to acknowledge that the government has undertaken several measures to promote good governance, accountability and transparency. It has established an NKRA against corruption as an important element in the whole Government Transformation Program (GTP) under which several core initiatives have been undertaken in the areas of regulatory and enforcement, government procurement and grand corruption. So we now see SPRM and the police being strengthened, greater efficiency of the judiciary in disposing corruption cases, enforcing stiffer punishments, etc.
11. What is more relevant to my topic is of course those initiatives to reduce procurement mal-administration, for which several important measures have already taken place. For instance, there is now greater reliance on open tenders as opposed to direct negotiation as a means to reduce leakages in the funds allocated for national development and public administration, as well as ensure fairness in the award of contracts. Another example is to disclose details of all government procurement and privatisation contracts, such as information on vendors, prices and project titles, which is an important transparency measure under GTP. Also the role of support letters, which before have created some controversy, has now been clearly defined through the Prime Minister's directive for ministries and agencies not to issue support letters especially for direct negotiation.
12. Another important measure is the government's renewed emphasis on obtaining value for money from government expenditures. We all know that over the years, government expenditures, whether operating or development, have shown a rising trend. But have these expenditures been wisely spent in terms of generating positive outcomes? Not really, if we go by the AG Report. Whenever expenditures are not based on the principles of economy, efficiency or effectiveness, value for money will be highly questionable. On the contrary, the AG Report has always exposed cases of extravagance, wastefulness and fraud in government expenditure, something controlling officers are normally not aware of until they are raised by audit.
13. In this context, we should welcome the government's recent initiative to make it mandatory for all government projects costing RM50 million to undergo a value management exercise, in which an independent panel will review the scope, location and the construction technology towards minimising the total project cost. Indeed, within a relatively short time, value management has proven to be an effective tool for the government



to secure value for money and enjoy billions of ringgit in cost savings for projects under the First Rolling Plan of the current 10th Malaysia Plan. Besides these, through other initiatives such as eProcurement and eBidding, ministries and agencies can also secure meaningful cost savings. To me, this proves that in the past there has been much fat in government procurement and we should welcome all these new government initiatives to reduce such fat.

14. Another welcome initiative is to encourage Integrity Pacts between government and vendors/suppliers which emulate the practice in countries like Korea and are well received by monitoring institutions like Transparency International Malaysia. The latest to adopt this practice is the MRT project, which is the biggest infrastructure project undertaken so far. In this connection, I think all government agencies, including statutory bodies and government-linked companies, at all levels, federal, state and local should adopt this good practice as a matter of policy.
15. Interestingly, another core initiative under the NKRA against corruption is the strengthening and independence of key institutions such as the judiciary, MACC and the Auditor-general which I will comment later on.
16. Now, what is happening in the public-sector auditing sphere? I will discuss this in two parts, i.e. the JAN as the external auditor of the government and secondly the internal auditors we find in the various ministries and agencies.
17. The Malaysian public service is now about 1.4 million strong with many of them routinely managing billions of Ringgit in operating and development expenditure annually. At the federal level, JAN is the external auditor of 25 ministries, 120 statutory bodies, 110 Departments and agencies.
18. With about 2000 auditing and supporting staff nationwide, JAN's core business is to conduct attestation audits on financial statements, compliance audits on financial management and performance audits on government programmes, projects and activities which run into the tens of thousands. It is obviously impossible to audit all of them in any one year.
19. With regard to financial statements, JAN covers the Federal Government accounts, 13 state accounts and the accounts of Federal and state statutory bodies, including big statutory bodies like the EPF, Bank Negara Malaysia, Felda, Bank Simpanan Nasional, KWAP, LTAT and Bank Kerjasama Rakyat. However, some statutory bodies like the service commissions, SPR do not come under the purview of JAN since it is not provided for in their respective legislations. Also government companies, both federal and state, including those under Khazanah Nasional, Minister of Finance Inc. (MKD or Menteri Kewangan Diperbadankan) and MBI (Menteri Besar Incorporated) are excluded and their accounts are audited by the big 4

- private auditing firms. JAN also does not perform compliance auditing on these entities. To what extent they have complied with their own financial rules and procedures as well the effectiveness of their internal control is entirely the responsibility of their internal audit and audit committee.
20. Compliance, as we know, is a vital aspect of accountability. Through its compliance auditing of the entities under its purview, JAN is able to provide good feedback to the Government as to the state of good governance i.e., whether there has been a high level of compliance with the numerous financial regulations and procedures by these entities. Towards this end, since 2007, JAN has implemented the Accountability Index (AI) star-rating system which is an objective tool to measure compliance in various aspects of financial management such as expenditure control, asset and inventory management, revenue management, investment management, etc. Ideally, we expect to see the compliance level to be excellent for every agency but most are normally good, with some being only satisfactory.
21. Through the AI, agencies will know which aspect of financial management requires improvement and they are expected to show improvement the next time the AI is conducted. Thus the AI serves as a useful KPI for the government to assess accountability in the public sector, for which departments and agencies can benchmark annual performance as well as the performance of their peers. The point I always make about AI is that it is not impossible to obtain an excellent AI rating provided there is a strong commitment by department and agency heads to make the necessary improvements through training, regular work supervision, etc. After 4 years of AI implementation, I am happy to see a rising trend in the number of excellent ratings, maybe because the AI is made transparent to the public as well as the fact that it has been adopted by the government as one of the indicators to measure all round performance of top management in the public sector.
22. However, I must point out that because AI auditing involves a rigorous process, it is normally confined to the headquarters of ministries and agencies and do not cover the performance at the divisional level or the Pusat Tanggungjawab which can run into the thousands in big ministries like the MOE! It is simply beyond the present capacity of JAN. Thus, through surprise audits conducted by JAN or by random internal audits, we discovered that compliance is not as good at the divisional or PTJ level compared to the HQ. Here again the role that can be played by internal audit is limited by the strength of its internal audit. Therefore, excellent performances at the headquarters level do not necessarily permeate to the rest of the organisation. So the risk of careless spending or even fraud therefore can be higher at the division or branch level.
23. Perhaps what is really exciting about the AG report for most of you is the performance audit reports which provide feedback to the Government

This book contains the proceedings of the 14th Perdana Discourse Series on "Enhancing Accountability and Integrity in the Malaysian Public Sector: Are We Doing Enough" which took place on the 9th of May 2012. The Discourse featured the Auditor-General of Malaysia, Tan Sri Dato' Setia Ambrin Buang, as keynote speaker, and panellists Dato' Seri Azmi Khalid, Chairman of the Public Accounts Committee (PAC); Datuk Paul Low, President of Transparency International (Malaysia); Dato' Ir. Dr. Zaidee Laidin, former Vice-Chancellor of UiTM; and Ms Khairiah Mokhtaruddin, Senior Researcher at the Razak School of Government.

This Discourse is part of the Perdana Discourse Series, organised by Perdana Leadership Foundation and UiTM. The objectives of the Discourse are to facilitate inter-generational knowledge-sharing and dialogue, as well as to encourage interest in public policy and its impact on nation building.

The entire Perdana Discourse Series is sponsored by PROTON (Holdings) Berhad.

ISBN 978-967-10612-2-0

