

**PUBLIC ACCOUNTS COMMITTEE REPORT  
ON  
THE MANAGEMENT OF CARGO SCANNING MACHINES  
THE ROYAL MALAYSIAN CUSTOMS DEPARTMENT  
(THURSDAY, 28 OCTOBER 2014)**

**1. INTRODUCTION**

The presentation of the Auditor-General's Report 2013 (Series 2) at the House of Representatives on 16 June 2014 has exposed certain items related to the Management of Cargo Scanning Machines of the Royal Malaysian Customs Department (JKDM).

The World Customs Organisation (WCO) SAFE Framework of Standards to Secure and Facilitate Global Trade prescribes that equipments like scanning machine should be available and used by the Customs Department.

The machine can assist the Customs Department to ensure import and export goods are declared and duties/taxes are paid correctly as well as detecting and avoiding dangerous/illegal goods such as drugs and weapons, without disrupting the flow of legitimate trade.

JKDM has started to use scanning machine since 2001 to scan the content of imported/exported cargoes and to inspect passengers at the airports, borders and port/jetty. As of the end of 2013, JKDM has a total of 16 cargo scanner machines acquired in 2001, 2003 to 2011. The costs spent was RM183 millions. The machines are located in Johor (7 units), Selangor (4 units), Penang (2 units), Perlis (1 unit), Sabah (1 unit) and Sarawak (1 unit).

**2. THE OBJECTIVES OF DISCUSSION BY THE PUBLIC ACCOUNTS COMMITTEE**

The Public Accounts Committee has discussed on the Management of JKDM Cargo Scanner Machines which was raised in the Auditor-General's Report 2013 (Series 2). In line with the responsibility given under the Rule 77 of

Standing Orders of the Dewan Rakyat and Article 304(a) Treasury Order (Amendment 2008), the Committee has made examination on this matter for the purpose of:

- i. Determining whether expenditures were made with prudence or otherwise;
- ii. Identifying whether the payment made was in accordance with the current Government regulations; and
- iii. Recommending appropriate action that should be taken to all those involved parties in the event of irregularities in the spending of public money.

### **3. SCOPE AND METHODOLOGY**

The discussions have been made using these approaches:

- a) By inviting the Director of Federal Government Audit Sector to give clarification regarding the issue raised.
- b) By inviting the parties that involved in the Management of JKDM Cargo Scanner Machines which was the Royal Malaysian Customs Department to give clarification on the feedbacks and actions taken; and
- c) By inviting representatives from central agencies like the Ministry of Finance; the National Accounts Department; the Public Service Department and the Economic Planning Unit to also attend the meeting.

### **4. LIMITATIONS OF THE PUBLIC ACCOUNTS COMMITTEE**

No limitations identified.

### **5. THE OUTCOMES OF THE DISCUSSIONS AND FINDINGS OF THE PUBLIC ACCOUNTS COMMITTEE**

The discussion session started with the clarification regarding the issue by the National Audit Department to the Public Accounts Committee. Afterwards, the party involved with the issue which was the Royal Malaysian Customs

Department represented by Dato' Sri Khazali bin Haji Ahmad was called to give clarification. The summaries of matters discussed are as below:

### **5.1. Clarification by the National Audit Department**

The National Audit Department has informed the investigation result of the Management of JKDM Cargo Scanner Machine:

- a) In general, the management of cargo scanners has been managed properly and complied the procurement regulations set by the Government.
  
- b) Some of the weaknesses found are as below:
  - i) From 16 cargo scanner machines that are currently being used, there are 2 cargo scanners (placed at Port Klang) that had high downtime rate of 11.8% and 15.6% per year or malfunctioning rate of 86 days and 171 days for the period of 2 and 3 years.
  
  - ii) The contract clauses of the maintenance of the machine did not include adequate scope of work for preventive maintenance and the detailed monthly maintenance cost was not stated in accordance to the scope of work; and
  
  - iii) Whenever an accident occurs, as what happened in CIQ Johor Bahru and West Port, Port Klang, the actions to be taken depended on the Customs officers' own initiatives as the related Standard Operating Procedures (SOP) is not prepared. Other than that, no evidence showing that an action has been taken to claim from the responsible party.

## **5.2. Clarification by the Director General of Customs, the Royal Malaysian Customs Department**

The Director General of Customs has implemented a few actions following the Audit in the Auditor-General's Report 2013 (Series 2). The actions are as follow:

5.2.1. The vendor has replaced the Data Set Management Server or DMS with a new one on the 13<sup>th</sup> January 2014. The vendor also has placed a technician at the cargo scanner machines (that have highest downtime rate) at the Port Klang.

5.2.2. By introducing several improvements to the conditions of the contract to refine the maintenance of the management of the cargo scanners. In the maintenance contract of the machines with the Pan Asiatic Technologies Sdn. Bhd., up to **30 items** were included in the monthly scope of maintenance work and **60 items** in the yearly scope of maintenance work. The total monthly and yearly cost of maintenance have also been mentioned in the contract based on the work scope like man hours, location of the machines and cost of professional workmanship when they provide services. In August 2013, the company has made improvements to overcome problems identified and the cause of the problems are as below:

- (i) By improving Software Image Analysis;
- (ii) By replacing Optical Character Recognition (OCR);

5.2.3. The SOP for Complaint Procedure/Faulty Report of Scanner Machine has been issued to all State Customs offices in August 2014.

## **6. SUMMARY OF THE PUBLIC ACCOUNTS COMMITTEE**

6.1. The Customs Department should buy quality scanner machine based on the procurement policy of total cost of ownership. This means that an agreement made with the vendor needs to take into account the handling cost and repairing cost which are reasonable in the given

period of time. In addition, damages by third party need also be placed under the responsibilities of the vendor.

## **7. RECOMMENDATIONS BY THE PUBLIC ACCOUNTS COMMITTEE**

- 7.1. The Royal Malaysian Customs Department should re-evaluate the upcoming procurement of the cargo scanner machine based on the total cost of ownership policy or leasing. Other than that, service level agreement (SLA) for the usage of scanner machine needs to be mentioned clearly before contract is made.
- 7.2. The Customs Department is required to get the total expenditure that will be incurred if procurement like in item 6.1 is to be implemented.

**The Public Accounts Committee**