



**PENGERUSI JAWATANKUASA
KIRA-KIRA WANG NEGARA (PAC)
MERANGKAP AHLI PARLIMEN IPOH TIMUR
PEJABAT JAWATANKUASA KIRA-KIRA WANG
NEGARA**

Tel : 03-2601 7263/ 2698 6852(DL)
Faks : 03-2698 9218
Email : pacparlimen@parlimen.gov.my
Laman Web : <http://www.parlimen.gov.my/pac>

4 August 2022

**MEDIA STATEMENT
REGARDING
THE PAC REPORT ON THE PROCUREMENT OF LITTORAL
COMBAT SHIPS (LCS) OF THE ROYAL MALAYSIAN NAVY
(TLDM) UNDER THE MINISTRY OF DEFENSE (MINDEF)**

1. The Public Accounts Committee (PAC) today tabled the Report of the LITTORAL COMBATANT SHIP (LCS) of the Royal Malaysian Navy (TLDM) under the Ministry of Defence.
2. This issue is the findings of the National Audit Department reported in the Auditor General's Report (LKAN) 2019, Compliance Auditing of Ministries and Federal Departments also reported in the Report of the Special Committee on Governance Investigation, Government Procurement and Finance (JKSTUPKK).
3. The PAC has held nine (9) proceedings regarding this issue, starting on 18 November 2020 and the last one was on 8 March 2022.
4. Among the witnesses called in the proceedings were:
 - i. Dato' Seri Hishamuddin bin Tun Hussein, Senior Defence Minister;
 - ii. Dato' Seri Ahmad Zahid bin Hamidi, Former Defence Minister;
 - iii. Dato' Sri Muez bin Abd Aziz, Secretary General of the Ministry of Defence (MINDEF);
 - iv. Tan Sri Ambrin bin Buang, Chairman of JKTSTUPKK;
 - v. Tan Sri Laksamana Mohd Reza bin Mohd Sany, Chief of Navy ;
 - vi. Tan Sri Dato' Sri Dr. Abdul Aziz bin Jaafar , Former Chief of Navy;
 - vii. Dato' Ahmad Nazim Abd Rahman, Chief Executive Officer, Lembaga Tabung

Angkatan Tentera (LTAT);

viii. Encik Sharifuddin bin Md. Zaini Al-Manaf, Chief Executive Officer, Boustead Heavy Industries Corporation Berhad, dan

ix. Encik Low Kok Chiang, Chief Operating Officer, Boustead Naval Shipyard Sdn. Bhd. (BNS).

5. The PAC has come out with nine (9) conclusions as the outcome from the proceedings, as below:

- i) The LCS project contract was awarded by the Government to the BNS company through direct negotiation. The government has paid a total of RM6.083 billion for the LCS project, but not a single LCS ship has been completed. According to the original schedule, as of August 2022 five (5) LCS ships should be completed and handed over;
- ii) TLDM's view as the end user was ignored by MINDEF and the BNS company in the implementation of the LCS project. Originally, the design of the SIGMA-type ship chosen by the TLDM was approved by the Minister of Defence. The decision was changed to the GOWIND type ship design on 11 July 2011 at the suggestion of the BNS company which was brought to the Minister of Defense on 8 July 2011. Quoting the statement by Tan Sri Abdul Aziz, Chief of Navy at that time, that the decision was seen as "something is gravely wrong";
- iii) Due diligence carried out by the Government on the BNS company failed to detect the company's financial problems. This was proven when the Government had to make an advance payment of up to RM1.36 billion to BNS, contrary to Treasury Circular No. 5 of 2007 which was in force at that time;
- iv) The financial position of BNS was weak and critical due to abuse of power and mismanagement of finances. As of 2018, BNS' debt to OEMs was as much as RM801 million while BNS' loans with financial institutions was as

much as RM956 million;

- v) BNS has appointed the companies - CAD and CED to purchase equipment from OEM. This caused the purchase cost to increase multiple fold. CAD and CED were a joint venture between BNS (51%) and RAD (49%) of which RAD has full control over CAD and CED. The Forensic Auditing Report found the role of CAD and CED in the LCS project were highly questionable;
- vi) The terms of the contract was weak and do not favor the Government. Payment of LCS projects was based on progress of activities or supply of items and not on actual progress. This was unusual and caused the LCS1 progress payment to exceed the actual work progress by 21.1% (payment of 63.8% compared to the actual work progress of 42.7%);
- vii) Until now, the detailed design has not yet been finalized by the Government and BNS. This caused VO to be issued repeatedly and opens up the room for manipulation;
- viii) The payments from the Government to BNS company was not fully used for the LCS project. This caused BNS to face a cost overrun of RM1.4005 billion. From that amount, a total of RM400 million was used to settle bad debts from the old NGPV project; and
- ix) The equipment kept in storage for the LCS project was estimated RM1.7 billion and an estimate of 15% of it is already obsolete.

6. The PAC recommends seven (7) measures to be implemented as follows:

- i. JKSTUPKK's report regarding the Procurement of Six Second Generation Patrol Vessels (SGPV), as Littoral Combatant Ship (LCS) of the Royal Malaysian Navy, Ministry of Defense Malaysia is fully declassified;
- ii. The incident where the LCS ship design selection was changed from SIGMA to GOWIND should serve as a lesson for future procurement. The acquisition of national defense equipment should prioritized the needs of the end user, which

is TLDM in this case, and in general, for all future projects and acquisitions in line with the Defense White Paper 2020 - 2030;

- iii. The Ministry needs to present substantive military procurement planning to the Parliamentary Special Select Committee on Defense and Security from time to time by involving all stakeholders;
- iv. The Government's Contract Administration should be streamlined to minimize Work Variation Orders (VO) to prevent the increase of projects' costs;
- v. The MACC needs to take action on all the findings of the PAC Report, the JKSTUPKK Report, and the Forensic Audit Report immediately. Prosecution must be expedited;
- vi. MINDEF needs to review all options and determine the best direction for the LCS project to ensure that public money is spent responsibly;
- vii. MINDEF must present a progress report of the LCS project every three (3) months to the PAC until the LCS project is completed.

7. I would like to thank the cooperation of all parties, especially the Ministry of Defence, BNS and all Government departments and agencies in preparing this report.

8. The public who are interested in reading and scrutinizing the PAC Report on the Procurement of Littoral Combatant Ships (LCS) of the Royal Malaysian Navy (TLDM) under the Ministry of Defense (MINDEF) can download the report on the PAC's website at www.parlimen.gov.my/pac