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PAC MEDIA STATEMENT

PAC REPORT ON THE PROGRESS OF THE SECOND GENERATION LITTORAL COMBAT SHIP BELONGING TO THE ROYAL MALAYSIAN NAVY (RMN) UNDER THE MINISTRY OF DEFENSE (MINDEF) FROM OCTOBER 2022 TO MAY 2023

1. Today, the PAC has tabled the Progress Report of the Second-Generation Littoral Combat Ships (LCS) under the Ministry of Defence (MINDEF) for the period from October 2022 to May 2023.
2. The report is tabled after the PAC conducted a working visit to LCS 1 (KD Maharaja Lela) at Boustead Naval Shipyard (BNS) to see the progress of the LCS construction work as well as the storage of LCS equipment and supplies on 10 June 2023. It was followed by a proceedings meeting.
3. The PAC has called the following witnesses for the proceedings:
 - i. Datuk Dr. Shahrazat binti Haji Ahmad, Deputy Secretary General (Development) MINDEF;
 - ii. Dato' Ahmad Nazim bin Abd Rahman, Chief Executive of the Armed Forces Fund Board; and
 - iii. Kepten (B) Ir. Azhar bin Jumaat, Chief Executive Officer of BNS Sdn. Bhd.

4. The meeting to prepare this report was held on 13 September 2023 and was also attended by seven PAC Ex-Officio members from the Attorney General's Department, Public Service Department, Ministry of Finance, National Audit Department, Malaysian Anti-Corruption Commission, Ministry of Economy and the Accountant General's Department who had agreed with the report, conclusions and recommendations.

5. The PAC has come up with nine conclusions as follows:
 - i. There has been no progress for the construction of the LCS since the PAC of 14th Parliament's visit on 11 December 2021 until the PAC of the 15th Parliament visit on 10 June 2023.

 - ii. Through the mobilization plan contained in SA 5 signed on 31 May 2022, MINDEF is more careful in its planning after the failure to meet the original LCS schedule where all six ships were supposed to be completed in 2023.

 - iii. . The main issue is the detailed design of the LCS which has not been resolved. Currently, it is at 96 percent completion at the contractor level and only 84 percent have gone through the confirmation, verification and approval stage by the Naval Group from France as the LCS design supervisor. However, the contractor assured that the detailed design will be completed before August 2024 as contained in SA 6.

 - iv. The Government's decision to take over BNS through the establishment of Ocean Sunshine Bhd. (SPV) can help restore the

trust of shareholders, banks and suppliers in the implementation of this project.

- v. The Government decided to reduce the number of LCS from six (6) to five (5) following the construction of LCS 6 block has yet to start and the equipment that has been purchased can be used on other LCS.
- vi. Although the number of LCS was reduced to five, the cost of construction has increased from RM9.128 billion to RM11.22 billion, an increase of RM2.098 billion which comes from cost for design (RM0.211 billion), equipment price (RM1.214 billion), insurance and risk (RM0.466 billion), financial cost (RM0.143 billion), and project management cost (RM0.066 billion). Delays and time increased are also the main factors for this increase.
- vii. The LCS construction period has been extended to 83 months and it is expected that RMN will only be able to get all five LCSs in 2029 compared to the original contract where LCS 5 was supposed to be delivered in 2022.
- viii. The SA 6 agreement signed on 26 May 2023 did not get the AGC's approval. The Department explained that MINDEF was informed that there should be further action needed for SA 6 and it should be submitted back to the AGC before it was signed.
- ix. MINDEF's decision to ignore AGC's request before signing the SA 6 was an inappropriate action because it can have legal implications to the government and such action cannot be repeated.

6. The PAC proposed six recommendations to the Government as follows:
- i. MINDEF needs to ensure the mobilization plan is carried out according to the conditions set, with the first LCS ship completed in May 2024 and handed over to the RMN in August 2026.
 - ii. MINDEF needs to ensure that the contractor completes the detailed design fully, including obtaining the approval from the Naval Group before August 2024 as stipulated in SA 6.
 - iii. The Government must ensure the acquisition of BNS by Ocean Sunshine Bhd. achieves the original goal of its establishment.
 - iv. MINDEF and RMN are responsible to ensure that the entire five (5) LCS projects worth RM11.22 billion are completed and handed over to RMN according to the agreed period and cost in SA 6.
 - v. Ministries and government agencies must ensure that the draft contract negotiated with any company are consulted and reviewed as orderly and approved by the Attorney General's Office (AGC) first before signing any agreement.
 - vi. The National Audit Department (NAD) needs to carry out an audit before LCS 1 is handed over to RMN and to table the audit report to Parliament.
7. Members of the public who are interested in reading the PAC Report on the Progress of the Second Generation Littoral Combat Ship (LCS) under the Malaysian Ministry of Defense (MINDEF) for the period from October 2022 to May 2023 may download the report from PAC's website at www.parlimen.gov.my/pac

OTHERS

8. As mentioned by the PAC Chairman in a media statement on 6 October, PAC welcomed H.E Tan Sri Dato' Johari bin Abdul's announcement that this report is to be presented and debated.
9. However, the presentation mechanism of the PAC report needs to be scrutinized and discussed in-depth, especially on who will answer all the questions from Members of the House about the report, whether it is the Minister or the PAC Chairman /PAC Members.
10. The PAC is of the opinion that it is better for the Chairman of PAC/ Members of PAC to answer the questions from Members of the Dewan Rakyat. However, the PAC's answers may be limited as the latest relevant information is only known by the ministry.
11. Tomorrow, the PAC will listen to a briefing by the Auditor General, Datuk Wan Suraya Wan Mohd Radzi, regarding the presentation of two Auditor General's Reports (LKAN) namely LKAN 2022 on Federal Financial Statements and LKAN 2021 on Financial Statements and Compliance Auditing of Federal Agencies. Both of these reports are very important especially the Federal Financial Statement LKAN which will detail the country's income and debt for the year 2022.

Thank you

**Hon. Puan Wong Shu Qi
Deputy Chairman of PAC
Parliament of Malaysia**