

## Evaluating Internal Control Mechanisms in Malaysian Public Sector Initiatives: Insights from the Public Accounts Committee (PAC) Reports

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**Abstract:** This study examines internal control challenges in Malaysian government projects, drawing on Public Accounts Committee (PAC) reports from 2019 to 2022. The focus on this period stems from the shift in PAC chairmanship from government to opposition, which enhanced perceived independence. However, the literature suggests that the PAC's success depends more on collaborative decision-making than on the chairman's political affiliation. Analyzing 29 government agencies across various sectors revealed recurring weaknesses in internal controls. The study employed the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control-Integrated Framework (ICIF) to systematically identify these weaknesses. A content analysis method was used to examine the themes, which were grouped into five ICIF components: control environment, risk assessment, control activities, information and communication, and monitoring. Weaknesses in the control environment include conflicts of interest, compromised ethical values, inadequate governance, and a lack of accountability and transparency. Risk assessment deficiencies were found in financial risk management, procurement and acquisition risks, geopolitical and strategic risks, intellectual property and technology risks, and project management risks. Control activity weaknesses involved poor resource and process management, non-compliance, and flawed decision-making. Information and communication issues included poor documentation, inadequate system integration and data sharing, limited stakeholder engagement, weak communication protocols, and poor information management. Monitoring deficiencies were noted in regulatory compliance, contract management, financial oversight, monitoring systems, and disbursement tracking. Addressing these weaknesses in internal controls is crucial for minimizing the risks of fraud, waste, and loss of public trust.

**Keywords:** *Public accounts committee, control environment, risk assessment, control activity, information and communication and monitoring.*

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### 1. Introduction

The management of public funds is a fundamental aspect of governance, with significant implications for a nation's economic stability and public trust. However, governments worldwide often grapple with challenges in ensuring transparency and accountability in financial management. In Malaysia, the magnitude of this challenge is starkly illustrated by the findings of the Global Financial Integrity (GFI) Report 2017, which revealed that the country lost RM1.8 trillion to illicit financial outflows between 2005 and 2014. This figure, which dwarfs the nation's largest-ever budget of 2021 by more than five times, represents not only a significant economic loss but also a missed opportunity for national development. The potential for these funds to sustain Malaysia's operations and administration for five years highlights the gravity of the situation.

The far-reaching consequences of such financial losses include undermining the country's governance, eroding economic progress, and diminishing the quality of life for its citizens. These issues underscore the need for robust internal control systems within government institutions to prevent financial mismanagement and corruption. In Malaysia, the Public Accounts Committee (PAC) serves as a crucial oversight mechanism, tasked with examining national audit reports, investigating financial discrepancies, and holding government entities accountable for their fiscal practices.

This research explores the internal control challenges faced by the Malaysian government, as documented in PAC reports from 2019 to 2022. The study aims to identify, categorize, and evaluate internal control weaknesses in government-managed projects using the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control-Integrated Framework (ICIF). By analyzing the internal control mechanisms within 29 government agencies across various sectors, this study seeks to provide insights

into the effectiveness of these controls and their impact on the integrity and transparency of public sector initiatives.

These findings are critical for policymakers, government agencies, and stakeholders seeking to strengthen internal controls, enhance governance, and ensure efficient use of public resources. Addressing these weaknesses is essential for mitigating risks, improving accountability, and maintaining public trust in government operations.

The structure of this chapter is as follows: first, a review of relevant literature is provided; next, the research methodology is detailed; the subsequent sections present and discuss the study's findings; and finally, the chapter concludes with recommendations and reflections on the study's implications.

## 2. Literature Review

The literature review is divided into three sections: The first section explores the existing literature on the practices of the Malaysian Public Accounts Committee (PAC). The second section discusses the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control-Integrated Framework (ICIF) and its components. The third section examines the significance of the ICIF as highlighted by previous studies.

### **The Malaysian Public Accounts Committee (PAC)**

The Malaysian Public Accounts Committee (PAC), as defined by Standing Order No. 77 of the Dewan Rakyat, is responsible for scrutinizing the federal government's accounts, approved budget, and Auditor General's reports (Parliament of Malaysia, 2018). The PAC's key function is to assist Parliament in ensuring that government actions and expenditures align with parliamentary approval. It serves as a "watchdog" to safeguard public funds and resources while assessing the efficiency and effectiveness of the government's resource management (Zainal Abidin, Muhammad Sori, Mat Daud, & Senik, 2019). This oversight role has historical significance. For example, the UK Parliament established the first PAC in 1857, following the traditional Westminster model, which is widely adopted in Commonwealth countries (Padlee, 2021). As a result, the existence of the PAC fosters a culture of accountability, as noted by Yaakob, Kadir, and Jusoff (2009).

Since its inception in 1959, a representative from the government side has traditionally held the chairmanship of the PAC in Malaysia. However, contemporary insights, as articulated in Watkinson's (2022) recommendation found in the *Handbook on Parliamentary Financial Oversight: Adapting PAC best practices for small legislatures*, propose a departure from this convention. Advocating for a committee chair from the opposition party, this recommendation aims to inject a fresh dynamic into the PAC, fostering increased motivation and potentially enhancing its overall effectiveness. This suggestion aligns with established practices in Westminster parliaments, where it is commonplace for the PAC chairman to come from the opposition party.

A significant shift occurred in 2019 when the reins of power transitioned from Barisan Nasional (BN) to Pakatan Harapan (PH). This transition marked a departure from the norm, as, for the first time, the chairman of the PAC was chosen from the ranks of the opposition party (please refer to Table 1 for details). While research suggests that appointing an opposition member as the PAC chairman is a positive step toward enhancing the PAC's independent image, it also concludes that changes in the chairman's appointment do not significantly impact the PAC's effectiveness. This is because the PAC's decisions are primarily shaped by consensus among its members. The chairman's core task is setting the committee's agenda in consultation with committee members and the Auditor General (Padlee, 2021), indicating that the effectiveness of the PAC is more rooted in collaborative decision-making than the political affiliation of the chairman. This underscores the importance of conducting additional studies to assess the PAC's effectiveness, particularly in light of changes in the chairman's political affiliation.

**Table 1: Chairmanship of the Public Accounts Committee (PAC) from 2013 to present**

Period	Government	Chairperson	Affiliation
From July 2013 to November 2015	Barisan Nasional (BN)	Datuk Nur Jazlan bin Mohamed	The chairperson is a member of the government-aligned political party, the United Malays National Organization (UMNO).
From November 2015 to April 2018	Barisan Nasional (BN)	Dato' Hasan bin Arifin	The chairperson is a member of the government-aligned political party, the United Malays National Organisation (UMNO).
From August 2018 to April 2019	Pakatan Harapan (PH)	Datuk Seri Dr. Ronald Kiandee	The chairperson is a member of the government-aligned political party, the Parti Pribumi Bersatu Malaysia (BERSATU).
From April 2019 to March 2020	Pakatan Harapan (PH)	Dato' Dr. Noraini binti Ahmad	The chairperson is a member of the opposition political party, the United Malays National Organisation (UMNO).
From August 2020 to October 2022	Perikatan Nasional (PN)	Tuan Wong Kah Woh	The chairperson is a member of the opposition political party, the Democratic Action Party (DAP).
From April 2023 to the present	Pakatan Harapan (PH)	Datuk Wira Mas Ermieyati binti Samsudin	The chairperson is a member of the opposition political party, the Parti Pribumi Bersatu Malaysia (BERSATU).

Source: The official website of the Parliament Public Accounts Committee (PAC)

In the Dewan Rakyat, two distinct types of reports are associated with PAC investigations: the PAC report and the response report. Between 2019 and 2022, 23 PAC reports were tabled in the Dewan Rakyat. However, during the same period, government ministries submitted only 21 response reports. Notably, the two outstanding response reports pertained to the development and acquisition of the MySejahtera application and the acquisition of a second-generation patrol ship—a littoral combat ship (LCS) for the Royal Malaysian Navy. This discrepancy might indicate potential communication challenges between the PAC and government ministries, suggesting possible delays. Ministries may still be in the process of preparing responses for certain PAC reports, which could contribute to the observed inconsistency. Therefore, a thorough examination is essential for a more nuanced understanding of this issue.

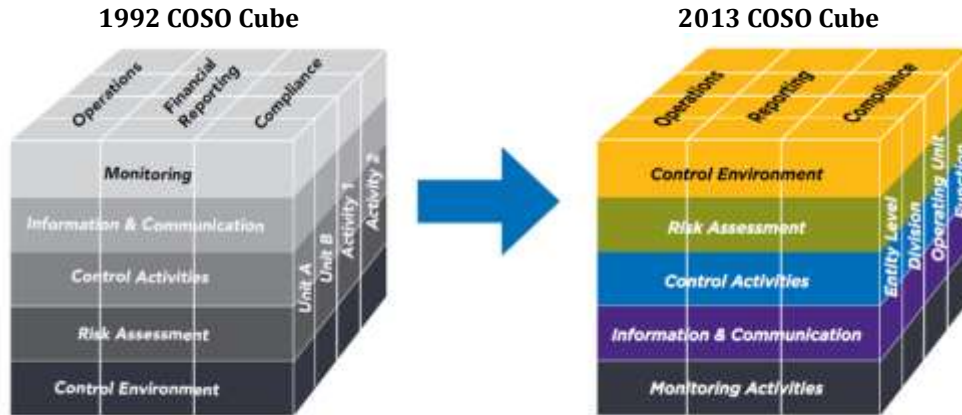
### **Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control-Integrated Framework (ICIF) and Its Components**

The Internal Control-Integrated Framework (ICIF), developed by the Committee of Sponsoring Organizations of the Treadway Commission, is widely recognized as a comprehensive model for assessing, identifying, and improving weaknesses in the internal control systems within organizations (Gul & Mahzan, 2013). Prior research highlights the significance of COSO's ICIF in various areas, including internal Shari'ah audits (Bouheraoua & Djafri, 2022). The framework also ensures the reliability of financial reporting (D'Aquila, 1998; Sofyani, Abu Hasan, & Saleh, 2022; Alaraji, Ali, & Sabri, 2023), mitigates fraud (Zakaria, Nawawi, & Salin, 2016; Le & Tran, 2018; Sofyani et al., 2022; Rendon & Rendon, 2022; Mardjono, Suhartono, & Hariyadi, 2024), and fosters financial performance and income generation (Musah, Padi, Okyere, Adenutsi, & Ayariga, 2022; Hamed, 2023; Mahmud, Susilowati, Anisykurlillah, Aeni, & Sari, 2024).

In 1992, COSO introduced the ICIF to address significant issues related to fraudulent corporate financial reporting (COSO, 2023). Approximately 21 years later, in 2013, a revised iteration known as the Internal Control-Integrated Framework (ICIF-2013) was released, superseding its predecessor and becoming the principal operational guide. The updated ICIF-2013 was developed to address evolving needs and challenges in internal control practices, including corporate social responsibility, corporate citizenship, sustainability, and

reporting on environmental, social, and governance (ESG) issues. Despite these updates, the framework retains its five core components: control environment, risk assessment, control activities, information and communication, and monitoring (refer to Figure 1).

**Figure 1: Evolution of ICIF**



Source: *COSO, 2023*

The components of the control environment, risk assessment, control activities, information and communication, and monitoring work together to create a cohesive internal control system. These essential components are elaborated as follows:

a. **Control Environment:** The board of directors and senior management set the tone for the control environment, which serves as the foundation for other elements (Li & Wang, 2023). It includes the organization's commitment to integrity and ethical values (COSO, 2023). Other key aspects include establishing standards of conduct, evaluating adherence to these standards, and addressing deviations promptly (COSO, 2023). Additionally, the control environment encompasses clearly defined employee duties, organizational charts, accounting manuals, segregation of duties, and staff work schedules (Akinleye & Kolawole, 2020). It also involves fostering integrity and ethical values, ensuring the development and compliance of internal controls, maintaining a well-structured organizational framework (including authorization, responsibilities, and reporting lines), and demonstrating a commitment to recruiting, training, and retaining skilled individuals (Yahya, Said, Zakaria, & Fuad, 2022).

b. **Risk Assessment:** Every enterprise faces numerous risks, both beneficial and unfavorable to its operations (Li & Wang, 2023). Risk assessment involves a dynamic and iterative approach to identifying and analyzing risks to align with the entity's objectives (COSO, 2013). Yahya et al. (2022) identified three elements of risk assessment: conducting risk assessments based on internal control objectives, managing risks using established mechanisms, and developing control activities to mitigate hazards. Meanwhile, Akinleye and Kolawole (2020) implemented risk assessments using operating budgets, expenditure controls, regular physical audits, and annual audits.

c. **Control Activities:** Actions established by policies and procedures to ensure that management directives effectively mitigate risks to the achievement of objectives (COSO, 2013). These activities aim to prevent negative occurrences such as fraud and embezzlement (Li & Wang, 2023). Yahya et al. (2022) identified three key elements of control activities: the development of technological controls to support internal control objectives, the implementation of policies and procedures to enforce control activities, and the assurance of proper segregation of duties, custody, and recordkeeping personnel. Conversely, Akinleye and Kolawole (2020) identified four elements of control activities: the existence of an internal audit unit, the independence of this unit, the generation of internal audit reports, and the subsequent review of these reports.

d. Information and Communication: Effective communication of organizational policies to various stakeholders ensures that the methods and channels of information transmission meet the needs of enterprise development (Li & Wang, 2023). Communication occurs both internally and externally, providing the organization with the necessary information to conduct day-to-day internal control activities. It enables staff members to understand their internal control responsibilities and their role in achieving organizational objectives (COSO, 2013). Proper documentation and written procedures of operations are essential in this process (Akinleye & Kolawole, 2020). Yahya et al. (2022) identified three key elements of information and communication: utilizing relevant and high-quality information to support internal control functions, timely communication with stakeholders regarding relevant information, and informing stakeholders about matters that affect internal control functions.

e. Monitoring Activities: This component ensures that regular internal checks of activities are in place (Akinleye & Kolawole, 2020). Ongoing evaluations, separate evaluations, or a combination of both are used to determine whether each of the five components of internal control, including controls to affect the principles within each component, is present and functioning (COSO, 2013). Effective monitoring is essential for enabling accountability, increasing transparency, strengthening internal connections, and promptly identifying problems in internal operations (Li & Wang, 2023). Yahya et al. (2022) identified three elements of monitoring: evaluating and informing responsible parties of internal control deficiencies promptly for corrective action, continuously assessing the presence and functioning of internal control components, and monitoring fund recipients to ensure that funds are spent only on authorized activities.

### **The Significance of ICIF**

The significance of the Internal Control-Integrated Framework (ICIF) is widely recognized across various contexts. Bouheraoua and Djafri (2022) highlight its importance in Shariah audits within Islamic Financial Institutions (IFIs), noting that the COSO framework offers an integrated approach to internal control principles that is adaptable to Shariah audits.

In addition to its application in Islamic finance, (Ariffin, Mohd Hanif, Ali, Abdul Razak, & Muhamad Sori, 2016) Emphasize the relevance of COSO principles within Malaysian credit cooperatives. Their findings reveal a high level of awareness among respondents regarding the internal control system, particularly about monitoring activities. However, awareness of risk assessment is slightly lower, indicating a potential knowledge gap.

Yahya et al. (2022) explore the application of ICIF within Malaysian statutory bodies, highlighting a consensus on the effectiveness of the information and communication dimension and monitoring practices. While the control environment and control activities are acknowledged as robust, risk assessment practices receive somewhat lower recognition, suggesting areas for improvement.

Similarly, Baral and Cakirsoy (2023) examine adherence to the ICIF within Turkey's metropolitan municipalities. Their study shows a high level of familiarity with the framework, particularly in the area of strategic planning and financial services. Respondents generally express positive views on the effectiveness of monitoring, information and communication, control activities, and the control environment. However, risk assessment receives a slightly lower rating, although overall sentiment remains optimistic.

Moreover, Akinleye and Kolawole (2020) analyze tertiary institutions in Ekiti State, Nigeria, and find that COSO components, particularly control activities, information and communication, and monitoring activities, positively influence organizational performance. However, they observe that the control environment and risk assessment hold less significance.

In summary, these studies collectively underscore the broad applicability and importance of the ICIF across diverse settings. While elements such as the control environment and monitoring activities are generally effective, there are identified areas for improvement, particularly in risk assessment practices. This highlights opportunities for improvement within organizations, as well as the need for continuous enhancement of internal control systems.

### 3. Methodology

This study evaluates internal control mechanisms in Malaysian public sector initiatives using reports from the Public Accounts Committee (PAC). The focus is on government agencies across various sectors, including finance, security, education, transportation, health, and governance, which have interacted with the PAC. The analysis includes a total of 29 agencies, encompassing ministries, the Central Bank of Malaysia, government-linked companies (GLCs), and other governmental entities. The subsequent sections discuss details on these agencies and specific findings.

#### Data Collection Process

Data were collected from the PAC reports available on the official Parliament PAC website. The study focused on reports from 2019 to 2022 to assess the impact of the shift in PAC chairmanship from the government to the opposition. Of the twenty-three PAC reports available for this period, one was excluded due to technical issues with downloading, potentially introducing sampling error. Consequently, twenty-two reports were analyzed: seven from 2019, five from 2020, eight from 2021, and two from 2022. Detailed distribution information is provided in the following sections.

#### Data Analysis Approach

A content analysis methodology was employed to systematically examine the PAC reports. Content analysis allows for identifying recurring themes and patterns in textual data. This approach was chosen for its structured framework, which facilitates the categorization of internal control weaknesses according to the Internal Control-Integrated Framework (ICIF). The ICIF includes five key components: control environment, risk assessment, control activities, information and communication, and monitoring.

To enhance the validity of the findings, it is important to acknowledge potential researcher bias during coding and interpretation. Triangulating content analysis with other methodologies, such as interviews with PAC members or public administration experts, is recommended. This complementary approach can validate emerging themes and provide a richer contextual understanding.

#### Classification of Findings

The weaknesses reported in the PAC reports were categorized into the five ICIF components, with specific themes identified within each component:

- a. Control Environment: Themes include conflicts of interest, compromised ethical values, inadequate governance, lack of accountability, and transparency.
- b. Risk Assessment: Thematic areas include financial risk management, procurement and acquisition risks, geopolitical and strategic risks, intellectual property and technology risks, and project management risks.
- c. Control Activities: Themes involve misuse of resources and funds, deficient process management, inadequate compliance and contract management, absence of standard operating procedures (SOPs), poor decision-making, and deficient evaluation and review processes.
- d. Information and Communication: Themes include lack of transparency and documentation, inadequate system integration and data sharing, insufficient stakeholder engagement and feedback, inadequate communication protocols, and poor information management.
- e. Monitoring: Themes include inadequate regulatory compliance oversight, ineffective contract management monitoring, lack of financial oversight, insufficient oversight of essential monitoring systems, and inadequate oversight of disbursement processes.

#### 4. Results and Discussion

##### **The Public Accounts Committee Report (2019-2022)**

From 2019 to 2022, the Public Accounts Committee (PAC) of the Malaysian Parliament issued 23 reports addressing various issues within the Malaysian public sector. These reports provide valuable insights into internal control mechanisms and highlight areas of concern in government-managed projects.

##### **2019 Reports**

In mid-2019, following the transition of the chairmanship from a government-aligned party to the opposition in April, the PAC issued seven reports, six of which are available on the PAC's official website. The topics covered include:

- Liquid petroleum gas (LPG) subsidy management
- Film production incentive program in Malaysia and the National Film Development Corporation Malaysia (FINAS)
- Investment losses incurred by Khazanah Nasional
- Goods and services tax (GST) refund arrears totalling RM19.4 billion
- Public marina management
- Management of the redevelopment project of existing facilities at the Bukit Jalil National Sports Complex, Kuala Lumpur
- Air mobility development

##### **2020 Reports**

The PAC issued five reports in 2020, a decrease from the previous year, likely due to the impact of the COVID-19 pandemic and the subsequent Movement Control Order on parliamentary operations. The reports investigated:

- Control activities against foreign workers
- The management of Educational Malaysia Global Services (EMGS)
- The sale of land owned by Kuala Lumpur City Hall (DBKL)
- The Road Charge (RC) and Foreign Vehicle Entry Record (VEP) collection system project
- The project management of the Malaysian Sports School (SSM) Perlis

##### **2021 Reports**

In 2021, the number of reports increased to eight, attributed to the resumption of parliamentary sessions, unresolved issues from previous years, and new issues arising from the pandemic. The reports covered:

- My Second Home Malaysia program management (MM2H)
- Expenses using the distribution of zakat funds of the Federal Territories Islamic Religious Council (MAIWP)
- Land acquisition Lot 41
- Malaysian maritime zone security control and enforcement activities
- Procurement of the COVID-19 vaccine and its distribution
- Automated Enforcement System (AES) Project
- Amanah Raya Berhad
- Interest claims for PR1MA housing project delays

##### **2022 Reports**

In 2022, only three reports were released. This reduced number coincided with the 15th general election (GE15) held on 19 November 2022, which resulted in Malaysia's first hung parliament. The unique challenges posed by the hung parliament likely affected the PAC's reporting activities. The topics covered were:

- MySejahtera application development and procurement
- Acquisition of a second-generation patrol ship, the littoral combatant ship (LCS), for the Royal Malaysian Navy
- Government-integrated telecommunications network service (MyGov\*Net)

Overall, the PAC's reports from 2019 to 2022 reveal fluctuations in the number and scope of issues addressed, influenced by factors such as the COVID-19 pandemic and political changes, including the transition of the PAC chairmanship. Despite these challenges, the PAC consistently highlighted significant weaknesses in internal control mechanisms within the government projects.

### **Agencies Engaged in Public Accounts Committee (PAC) Oversight (2019-2022)**

Between 2019 and 2022, the Public Accounts Committee (PAC) has been actively involved in overseeing various ministries and agencies to enhance accountability and transparency within the Malaysian government. This engagement has been crucial in addressing significant financial and operational issues. The following are the top ten agencies that have been most engaged with the PAC in scrutinizing financial and operational matters:

- Ministry of Finance (MOF)
- Prime Minister's Department (JPM)
- Ministry of Transport (MOT)
- Ministry of Home Affairs (KDN)
- Ministry of Health (KKM)
- Ministry of Defence (MINDEF)
- Royal Malaysian Customs Department (JKDM)
- Ministry of Education (KPM)
- Khazanah Nasional Berhad
- PR1MA Corporation Malaysia

Other agencies involved in PAC oversight include Amanah Raya Berhad (ARB), the Central Bank of Malaysia (BNM), the Immigration Department of Malaysia (JIM), the Ministry of Youth and Sports (KBS), the Ministry of Economic Affairs (KE), the Ministry of Works (KKR), the Ministry of Communications and Multimedia (KKMM), the Ministry of Foreign Affairs (KLN), the Ministry of Domestic Trade and Consumer Affairs (KPDNHEP), the Ministry of Agriculture and Food Industries (MAFI), the Ministry of Science, Technology, and Innovation (MOSTI), the Ministry of Human Resources (KSM), the Ministry of Federal Territories (KWP), the National Security Council (MKN), the National Film Development Corporation Malaysia (FINAS), Education Malaysia Global Services (EMGS), Ministry of Tourism, Arts and Culture (MOTAC), Ministry of Housing and Local Government (KPKT) and the Malaysian Administrative Modernisation and Management Planning Unit (MAMPU).

### **Control Environment: Key Themes and Weaknesses**

The PAC reports identify systemic weaknesses in the control environment across various projects. These shortcomings have led to poor decision-making, potential misconduct, and ineffective management of public funds. The scrutinized projects revealed the following key themes and weaknesses:

#### **Conflicts of Interest**

A significant weakness identified was the influence of personal or political factors on decision-makers. Conflicts of interest often led individuals and companies to prioritize their gains over the public good, resulting in decisions that did not align with the best interests of the projects or the public.

#### **Compromised Ethical Values**

Ethical standards were undermined through the involvement of intermediaries and political pressure on decision-making processes. Unauthorized policy changes further eroded integrity and trust, reflecting a disregard for established rules and procedures.

#### **Inadequate Governance**

Governance structures were found to be deficient, with key government representatives frequently absent from crucial meetings. This absence, combined with flawed contractor appointments and favoritism, increased the risk of misconduct and failed to provide effective oversight and accountability.



#### Lack of Accountability

The reports revealed several instances of inadequate accountability in the management of various projects. Contractors were granted extensions without sufficient justification, modifications to ship designs were made without proper protocols or stakeholder input, and contract terms were unfavorable to the government. These issues suggest a failure to enforce accountability and protect the government's interests.

#### Lack of Transparency

Transparency issues were evident, particularly with the implementation of new program requirements without stakeholder consultation and the opaque sale of land to finance the 1MDB plan. Such actions raised concerns about fairness, potential misconduct, and the proper use of public resources.

### **Risk Assessment: Key Themes and Weaknesses**

The PAC reports reveal significant weaknesses in financial and risk management across several key projects and initiatives. These shortcomings—such as deficiencies in procurement and acquisition processes, geopolitical and strategic considerations, intellectual property and technology protection, and project management—have led to substantial financial losses, compromised project integrity, and increased exposure to legal and geopolitical challenges. If left unaddressed, these issues could threaten the government's financial stability and erode public trust. These themes and weaknesses are briefly discussed below.

#### Financial Risk Management

The reports highlight significant deficiencies in financial risk management, including inadequate due diligence in land acquisitions, poor risk assessments for projects, and ineffective management of government funds.

#### Procurement and Acquisition Risks

The reports point out major issues in procurement and acquisition processes, including the misuse of corporate social responsibility (CSR) funds without proper procedures, which undermined fair competition and transparency. Poor risk assessment was also evident in the procurement of a major defense project, resulting in significant financial challenges and delays.

#### Geopolitical and Strategic Risks

Weaknesses were identified in the assessment and management of geopolitical risks, particularly disputes over maritime boundaries and intrusions by foreign vessels. These issues are likely due to inadequacies in maritime security operations, such as insufficient asset readiness and capacity for security control and enforcement in the Malaysian Maritime Zone (ZMM), as well as malfunctioning equipment including radar systems, navigation systems, and surveillance cameras.

#### Intellectual Property and Technology Risks

The report reveals weaknesses in the management of intellectual property rights for a significant digital health application. The failure to secure necessary protections has exposed the government to potential legal risks. Additionally, this shortfall became more apparent when the developer proposed commercializing the application, further highlighting its potential as a national asset. This underscores the need for improved intellectual property management.

#### Project Management Risks

The report identifies weaknesses in project execution and funding, such as delayed payments to contractors, which have contributed to increased financial costs and project delays, as seen in a high-profile development project. These operational inefficiencies, coupled with poor returns on long-term investments, failure to generate profits from short-term investment activities, and increased impairment losses, signal inadequate risk mitigation strategies and delayed corrective actions.

### **Control Activities: Key Themes and Weaknesses**

The reports highlight significant deficiencies in control activities across various areas, including resource management, process management, compliance and contract management, standard operating procedures (SOPs), decision-making, and review processes. These areas are discussed in detail below.

#### Misuse of Resources and Funds

The reports highlight significant challenges in resource management within government initiatives, including inefficient subsidy distribution, underutilized funds for film production incentives, and concerns over outstanding Goods and Services Tax (GST) refund claims. These issues underscore the need for improved financial management practices to prevent resource wastage and ensure the effective use of public funds.

#### Deficient Process Management

Significant deficiencies in process management were identified, including issues related to foreign worker qualification processes, contractor evaluation for a sports development project, and the use of corporate social responsibility (CSR) in procurement. Delays in the delivery of a major defense project, despite substantial payments, further highlight the need for a comprehensive review of process management practices.

#### Inadequate Compliance and Contract Management

The reports reveal major deficiencies in contract management and legal compliance. Poor management and compliance practices in a government-linked company may have led to potential financial risks. Challenges in a major infrastructure project were exacerbated by unfavorable contract terms that imposed financial burdens on the government. The failure to protect the interests of a government-funded housing development project in contractual agreements underscores the need for enhanced legal oversight and a more proactive approach to public-private partnerships.

#### Absence of Standard Operating Procedures (SOPs) and Poor Decision-making

Significant deficiencies were identified due to the absence of clear guidelines and poor decision-making. The lack of SOPs for land disposal created opportunities for inconsistencies and potential irregularities. Furthermore, the failure of the Road Charge Collection System Project to meet its objectives highlights shortcomings in planning and implementation, underscoring the need for improved strategic oversight.

#### Deficient Evaluation and Review Processes

Weaknesses in evaluation and review processes were noted, such as the absence of a performance assessment study for a film production incentive program. This lack of assessment limits the government's ability to measure program outcomes effectively and make necessary adjustments, potentially impacting overall governance and efficiency.

### **Information and Communication: Key Themes and Weaknesses**

Inadequate information and communication practices have contributed to government inefficiencies, poor decision-making, and reduced transparency. To address these issues, the government should prioritize improving documentation and reporting, enhancing system integration for better data sharing and decision-making, fostering stakeholder engagement, establishing clear communication protocols, and upgrading information systems. These actions are essential for restoring efficiency, effectiveness, and public trust in government operations. The key themes and weaknesses identified are as follows:

#### Lack of Transparency and Documentation

The reports revealed weaknesses in financial governance, such as the absence of documentation for ministerial actions and the exclusion of specific funds from the national budget during critical periods. These deficiencies undermine transparency and accountability in financial management.

#### Inadequate System Integration and Data Sharing

Inadequate system integration and data sharing have negatively impacted the management of foreign worker quotas and security operations. Incomplete integration of relevant systems has led to inefficiencies and potential vulnerabilities. Additionally, the use of disparate systems across agencies has hindered effective information flow, complicating the response to security threats.

#### Insufficient Stakeholder Engagement and Feedback

Deficiencies in stakeholder engagement and feedback processes were identified, including discrepancies between approved plans and public presentations, and a lack of input during the sale of public assets.

Insufficient engagement may result in decisions that do not align with community needs or concerns, potentially leading to public dissatisfaction and legal disputes.

#### Inadequate Communication Protocols

Significant deficiencies in communication protocols were noted. For example, a lack of communication between government agencies regarding a sports development project led to uninformed decisions and the selection of unqualified contractors, potentially compromising the project's success.

#### Poor Information Management

The report identified significant deficiencies in the management of information. Difficulties in generating accurate reports for a government program and missing critical information in a housing development project contributed to poorly informed decisions, resulting in project delays and increased costs.

### **Monitoring: Key Themes and Weaknesses**

The reports highlight significant shortcomings in the monitoring systems of various government initiatives, including inadequate regulatory compliance and oversight, ineffective contract management and monitoring, lack of financial oversight, lack of essential monitoring systems, and insufficient oversight of disbursement processes. These deficiencies have resulted in inefficiencies, financial mismanagement, and a lack of accountability in key projects. To address these issues, strengthening monitoring mechanisms through improved systems, processes, and oversight structures is crucial for achieving better outcomes. A detailed discussion is provided below.

#### Inadequate Regulatory Compliance and Oversight

The report identified significant deficiencies in regulatory compliance and oversight. For example, in the management of a government subsidy program, industry players failed to meet regulatory requirements and maintain proper records, reflecting ineffective enforcement. Additionally, the absence of essential checklists and inspection reports for a government incentive program indicates insufficient monitoring of compliance with program requirements.

#### Ineffective Contract Management and Monitoring

The reports highlighted significant deficiencies in the management and monitoring of contracts. For instance, some projects suffered due to inadequate oversight when monitoring responsibilities were delegated to third-party companies. This lack of direct oversight hindered the government's ability to effectively supervise contractors, potentially leading to mismanagement and poor performance.

#### Lack of Financial Oversight

Certain projects revealed failures in financial oversight, resulting in delays, cost overruns, and potential mismanagement. The government's inability to provide adequate financial control and accountability underscores the need for more robust monitoring of financial allocations.

#### Lack of Essential Monitoring Systems

The absence of comprehensive surveillance systems for critical areas exposes significant gaps in security monitoring capabilities within the country's coastal waters. This deficiency compromises the government's ability to detect and respond to threats, increasing the risk of security breaches.

#### Insufficient Oversight of Disbursement Processes

The reports identified opportunities to enhance oversight and improve efficiency in disbursement processes. Implementing robust monitoring mechanisms, streamlining procedures, and ensuring compliance with relevant regulations can minimize delays and ensure timely delivery of financial support to beneficiaries.

## **5. Conclusion**

This study illustrates the practical application of the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control-Integrated Framework (ICIF) in identifying specific weaknesses within the control environment, risk assessment, control activities, information and communication, and monitoring

in government-run projects. In the control environment, prevalent issues included conflicts of interest, compromised ethical values, inadequate governance, and a lack of accountability and transparency. The risk assessment component uncovered concerns related to financial risk management, procurement and acquisition risks, geopolitical and strategic risks, intellectual property and technology risks, and project management risks. Control activities were inadequate in areas such as resource and fund management, process management, compliance, and decision-making. The information and communication systems exhibited weaknesses, including inadequate transparency and poor documentation, insufficient system integration and data sharing, limited stakeholder engagement, and ineffective information management. Finally, the study identified monitoring deficiencies in regulatory compliance, contract management, financial oversight, and the supervision of disbursement processes. This study not only highlights the effectiveness of the ICIF in evaluating existing controls but also offers actionable insights for policymakers. To enhance risk mitigation, governance, and project management within public sector organizations, policymakers should adopt a strategic approach focused on the continuous improvement of internal control mechanisms. Furthermore, they should establish clear guidelines and a transparent system to hold individuals accountable for internal control breaches, thereby preventing future occurrences of these weaknesses. While the study provides valuable insights, it acknowledges its limitations, particularly its focus on PAC reports from 2019 to 2022. Future research could benefit from a broader scope and the use of mixed methodologies, such as content analysis and interviews, to strengthen the reliability of the findings. Addressing these gaps will offer a more comprehensive understanding of the challenges and potential solutions.

**Acknowledgments:** The authors gratefully acknowledge the financial support of the Research & Industrial Linkages (PJI) and Money-Laundering Research Group (MLRG) at UiTM Cawangan Melaka.

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