# UNIVERSITI TEKNOLOGI MARA

# INTERNAL CONTROL IN MITIGATING E-PROCUREMENT CORRUPTION IN MALAYSIAN PUBLIC AGENCY

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# ABSTRACT

The objective of public procurement as a powerful driver of development of every country is to secure value for money and achieve economic growth and development. Thus, to meet this objective, public procurement should yield the best returns for every Malaysian Ringgit spent in terms of quality, quantity, timeliness, price, and source. Therefore, with the scope of government purchasing being impressive, which takes a large amount of the government's annual expense, all the procurement regulations, procedures, and processes need to be clear and transparent. The adoption of e-procurement in Malaysia is aimed at increasing transparency and ensuring better value for money. Despite e-procurement being more transparent, more efficient, and cost-effective, the result has shown otherwise when the procurement cases increase by year. The weaknesses of internal controls within the public procurement processes in Malaysia's government agencies are a crucial aspect that contributes to this vulnerability. The existing framework for internal controls in public procurement may face challenges due to changing corruption strategies, technological enhancements, and administrative loopholes. Notwithstanding the implementation of multiple reforms and measures by the MACC and the AG reports constantly uncover cases of mismanagement and corruption in public procurement. Thus, this indicates that internal control over the procurement process should be improved to mitigate procurement corruption and to ensure that the goals of public procurement are achieved. Thus, the purpose of this research is to investigate the internal control of the e-procurement process in the case study of the Malaysian public agency. The research employs a normative point of view when making recommendations for procurement process control. A qualitative research methodology is adopted to investigate and understand the current practices of agency control in the e-procurement process. Hence, the primary data were acquired from a case study agency, 30 case reviews, and interviews to gain in-depth data. The research found that abuse of power, lack of integrity among public officials and lack of specific legislation governing the public procurement process are the main causes of corruption. The research further investigates the weaknesses of the current practice in the procurement process controls and found the case study agency's inadequacy of due diligence in the supplier selection process. The research also found that the agency's compliance with Principles 10 and 12 in internal control, which focus on selecting and developing control activities and implementing them through rules and procedures, was significantly lacking. The agency's lack of implementation of standard control measures, which are segregating duties and requiring job rotations, increased the agency's vulnerability to corruption. The case study findings indicate evidence of the e-procurement process, which constitutes the weaknesses in the agency's internal control practices. Therefore, the contribution of the research might improve the present internal control system and provide a more holistic solution for the e-procurement process control in Malaysian public agencies. The research contributes to the practices, new knowledge of the present practices in the form of practical recommendations to improve practice, and contributes to academic theory in relation to the theoretical concept of corruption in the public procurement process.

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# INTRODUCTION

## 1.1 Introduction

Corruption, a complex worldwide phenomenon, significantly hinders the development of nations by eroding trust, affecting social welfare, and impeding economic growth (Bernama, 2022). This fact highlights the significant problem of procurement corruption, which is one of the major issues in Malaysia.

The Public Procurement Fraud and Corruption Survey 2023, conducted by the World Bank, highlights the widespread nature of corruption in procurement processes. It underscores the fact that procurement corruption is a global concern that is not limited by economic status or geographical boundaries. These findings not only clarify the scope of the issue but also emphasise the critical need for efficient countermeasures. The Global Corruption Barometer 2023 indicates that more than 50% of respondents worldwide view public procurement activities as corrupt (Transparency International, 2023). This perspective underlines the significance of combating corruption within this sector, which accounts for nearly 12% of global GDP (or an estimated 11 trillion USD annually), highlighting the huge economic impact of procurement-related corruption.

The economic consequences of corruption in public procurement are significant, with approximately 10 to 20 per cent of the total global public procurement expenditure being lost to corruption every year. This loss signifies a substantial reduction in global GDP, totalling trillions of dollars that could otherwise be directed towards public welfare and development initiatives. The Global Competitiveness Report (2022-2023) by the World Economic Forum provides additional data on the rising expenses associated with corruption in developing nations, as shown in Table 1.1 below:

Table 1.1
Estimated Cost Of Corruption In Public Procurement in Developing Nations

| **Year** | **Estimated Cost (USD)** |
| --- | --- |
| 2018 | 1.26 trillion |
| 2019 | 1.3 trillion |