



**CHAIRMAN**  
**OF THE PUBLIC ACCOUNTS COMMITTEE (PAC)**  
**CUM MEMBER OF PARLIAMENT FOR MASJID TANAH**  
OFFICE OF THE PUBLIC ACCOUNTS COMMITTEE  
PARLIMEN MALAYSIA, JALAN PARLIMEN  
50680 KUALA LUMPUR

*Tel* : 03-2601 7263 / 2698 6852 (DL)  
*Fax* : 03-2698 9218  
*Email* : [pacparlimen@parlimen.gov.my](mailto:pacparlimen@parlimen.gov.my)  
*Website* : <http://www.parlimen.gov.my/pac>

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## **MEDIA STATEMENT**

1. Today, the PAC tabled the PAC Report on the Management of Training Funds and the Effectiveness of the Human Resource Development Corporation (HRD Corp) Training Programme Under the Ministry of Human Resources (KESUMA) in the Dewan Rakyat.
2. This is the first report of the PAC of the 15th Parliament produced under the authority of Standing Order 77 (1) (d) which is an issue that is not in the Auditor General's Report but rather "such other matters as the Committee may think fit, or which may be referred to the Committee by the House".
3. PAC decided to investigate HRD Corp by starting a proceeding regarding this issue in the public interest since the company is responsible for collecting the people's money and it needs to be determined that the money is used in accordance with the governance set by the Government.

A total of 22 witnesses were called to testify, including:

- i. Minister of Human Resources (December 2022 – December 2023);
- i. Chief Secretary (KSU) of KESUMA;
- iii. Deputy Secretary General (Policy and International) of KESUMA;
- v. BOD of HRD Corp;
- i. former BOD of HRD Corp (2022);
- vii. Chief Executive (CEO of HRD Corp);
- viii. the top management of HRD Corp; and

ix. former CEO of HRD Corp.

This proceeding is to ensure that the management of training funds collected by HRD Corp through levy collection from employers achieve the objectives set under the PSMB Act 2001.

4. The PAC has come up with the Terms of Reference (TOR) for these proceedings. Media representatives can refer to the TOR in the PAC report.
5. PAC has conducted 10 proceedings on these dates - 23 October 2023 , 1 November 2023, 2 November 2023, 20 November 2023, 23 November 2023, 6 December 2023, 18 January 2024 and 12 March 2024 to discuss this issue. The PAC also took three (3) days of preparatory meeting to produce this report.
6. The PAC, together with the Ex-officio of PAC from seven (7) Federal Government agencies namely the Attorney General's Department (AGC), Public Service Department (JPA), Ministry of Finance (MOF), National Audit Department (NAD), Malaysian Anti-Corruption Commission (MACC), Ministry of Economy (ME) and National Accountant's Department (AGDM) took approximately 50 man-hours from the proceedings until this report is presented in the Dewan Rakyat.
7. In general, the Human Resource Development Corporation (HRD Corp) is a Company Limited By Guarantee (CLBG) under the management of the Ministry of Human Resources (KESUMA) which is subject to the Human Resource Development Act 2001. The purpose of the company is to impose and collect levy for human resource development to promote training and development of employees, apperantices and trainees, as well as the establishment and administration of the Fund.

8. The PAC, through the proceedings found that the amount of levy collection recorded by HRD Corp has increased significantly to RM2.134 billion in 2023 compared to RM475 million in 2020. This significant increase is the result from the expansion of the PSMB Act 2001 where starting 1 March 2021 the levy has been made mandatory for all industrial sectors.
9. The PAC was informed that if the levies are not used by the employers within two (2) years, it will be categorized as unutilised levy. This period is seen as being too short where it does not help the Small and Medium Enterprises (SMEs) to utilise the training funds.
10. The Pac has found that HRD Corp has invested in various investment activities by using levy money such as put and call options, despite it is not an investment institution. This investment is high risk and may expose HRD Corp to the risk of significant losses.
11. In addition, PAC also found weaknesses in the management of HRD Corp such as poor governance, dubious methods of acquisition and purchase of properties that could cause losses to HRD Corp.
12. Following the proceedings, the PAC has made 15 conclusions:
  - i. The Human Resource Development Corporation (HRD Corp) through the Board of Directors' Meeting on 27 February 2024 has agreed that levy collection and HRD Corp operations be accounted for separately in line with the matters raised by the PAC during the proceedings.

- ii. Levy that is not used within two (2) years will be categorized as unutilised levy (forfeited levy). The levy period of two (2) years has caused many Small and Medium Enterprises (SMEs) to be unable to take advantage of the training funds that they have been contributing to because they do not reach the minimum cost to carry out training.
- iii. The transfer of the unutilised levy was not presented in the HRD Corp Board of Directors Meeting despite being requested by the Board Members (BOD). The HRD Corp management is of the view that the transfer of the levy to the unutilised levy fund does not need to go through the BOD, in accordance with the Human Resource Development Act (PSMB) 2001.
- iv. The implementation of a four (4) percent service charge on training providers was approved by BOD of HRD Corp in 2019 with the intention of covering HRD Corp's operational expenses without relying on investment. The industry protested about the service charge and the implementation was postponed to give space to HRD Corp to improve training management. However, under the new HRD Corp's management (year 2020), the service charge has been implemented using the original approval without being referred back to the BOD.

Although the four (4) percent service charge is implemented, HRD Corp continues to actively and aggressively invest using the levy money despite the risks.

- v. The main goal and function of HRD Corp is the development of human resources to promote training and development of employees/apprentices/trainees and not as an investment institution.
- vi. HRD Corp's Investment Panel did not report the investment activities to BOD due to the management's justification that the chairman of the investment panel is also the Chairman of BOD. This resulted in BOD not being able to monitor HRD Corp's investment activities as a whole, as well as dismissing BOD's role as the party responsible for HRD Corp's direction.
- vii. According to the PSMB Act 2001, a representative of Bank Negara Malaysia (BNM) must be appointed as one of the members of the Investment Panel. However, since 2017 no BNM representative has been in the HRD Corp Investment Panel. This is against the PSMB Act 2001.
- viii. The HRD Corp's real estate purchase approval process has gone through various procurement methods and not through a consistent procedural standard process. The BOD of HRD Corp were also given incomplete documents for some real estate purchase transactions.
- ix. Training allocations used from non-levy funds (government grants etc.) are more vulnerable to the risk of leakage, misappropriation, waste and corruption due to lack of Standard Operating Procedures (SOP) and monitoring.
- x. The action of the Chief Executive Officer (CEO) of HRD Corp who went to obtain the signature of the Deputy Chief Secretary for Operations of the Ministry of Human Resources (KESUMA) in a letter

dated 15 February 2023 gave the impression to BOD of HRD Corp that it was the approval to continue with the Skills Passport project.

- xi. The Minister of Human Resources in 2022 and BOD of HRD Corp were informed by the CEO of HRD Corp that the Skills Passport agreement does not bring any financial implications to HRD Corp. This contradicts with Schedule 3 of the agreement which states that HRD Corp will pay Neomindz Sdn. Bhd. RM12 for each use.
- xii. The BOD of HRD Corp was informed by the CEO OF HRD Corp that the *Microcredential* programme has obtained the approval of the Malaysian Qualifications Agency (MQA) to be implemented with the MACS company. However, MQA has never authorized any party to carry out *Microcredential* quality assurance on behalf of MQA nor appoint any party to negotiate with any university on *Microcredential* on behalf of MQA.
- xiii. The report of the study and review dated 18 October 2018 on the company's governance, carried out by Messrs. Ernst & Young was not presented to BOD of HRD Corp. Therefore, the recommendations for improvement contained in the report were not fully acted upon by HRD Corp.
- xiv. In HRD Corp, the Company Secretary and the Chief Legal Officer of HRD Corp are the same individual. This has resulted in some of the decisions and advice given being heavily in favour of the HRD Corp's management and not helping the BOD to carry out its responsibilities.
- xv. The delay in the appointment of the Chairman of HRD Corp has raised several governance issues in HRD Corp.

13. As measures of improvement, the PAC recommends to the Government, especially KESUMA as the ministry responsible for HRD Corp, to implement 11 things related to this issue:

- i) Since HRD Corp has grown since its inception, KESUMA needs to review the possibility to turn it into a statutory body to ensure better governance by referring it to the Attorney General's Department (AGC), Public Service Department (JPA) and Ministry of Finance (MOF).
- ii) BOD of HRD Corp needs to review the method of transferring the levy into the unutilised levy fund to ensure that the interests of SMEs are looked after. HRD Corp needs to take proactive steps to find alternatives for SMEs to use their contribution before it is categorized as unutilised levy.
- iii) KESUMA needs to review and amend the PSMB Act 2001 so that BNM representatives need not be appointed as Investment Panel Members anymore since BNM believes that this is in conflict with BNM's role as a regulator.
- iv) HRD Corp should focus more proactively on the disbursement of training funds to ensure the development of human resources and highly skilled workforce through comprehensive and focused training programmes and not just generic ones.
- v) HRD Corp needs to ensure that every investment activity is monitored by HRD Corp's Investment Panel and BOD in a more transparent and orderly manner. The Investment Panel must report all investment activities to the Board of Directors when requested as stipulated in the PSMB Act 2001 and not just to the BOD's Chairman.

- vi) HRD Corp needs to establish guidelines for asset procurement including and not limited to Limits of Authority (LOA) and SOP, so that there is a consistent process of procedural standards and ensure its implementation is fully complied with.
- vii) KESUMA should appoint an independent consultant to conduct a forensic audit on the effectiveness of the training programmes conducted under HRD Corp, including and not limited to programmes under Government grants. It should also take into account all complaints in the implementation of the programme. The forensic report must be reported back to the PAC.
- viii) KESUMA needs to play a bigger role in monitoring and scrutinizing the agreements signed by HRD Corp with third parties as well as the programmes implemented and seek legal counsel from KESUMA's Legal Advisor if necessary.
- ix) KESUMA and HRD Corp need to improve on the company's governance based on the 2018 "Governance Framework Review" report, produced by Messrs. Ernst & Young.
- x) Specifically for HRD Corp, the position of Legal Officer and Company Secretary should be different individuals to ensure that related responsibilities can be carried out in the best way.
- xi) KESUMA needs to review the authority of CEO of HRD Corp, especially the role of CEO in the Board of Directors and the Investment Panel and if necessary, make amendments to the PSMB Act 2001.



14. Members of the public who are interested to read PAC's statement and report may do so from PAC's website at [www.parlimen.gov.my/pac](http://www.parlimen.gov.my/pac)

Thank you.

**Hon. Datuk Wira Mas Ermieyati Samsudin**  
**Chairman of PAC**  
**Parliament of Malaysia**