

Probing corporate malaysia



**ASSIGN
BUSTER**

BIG or small, profitable or loss-making, voluntarily or otherwise, with or without warning signs – many businesses here have called in forensic accountants to ascertain if there had been wrongdoings, and if so, to compile evidence. But no matter how often this has happened, the commissioning of an investigation into a company's financial affairs is usually a headline-grabbing development because it brings a whiff of scandal. Or it at least tells us that not all is right with the company.

That is why there has been so much attention on accounting probes involving companies such as Port Klang Free Zone Sdn Bhd, Sime Darby Bhd, Petra Perdana Bhd, Ho Hup Construction Co Bhd, Maxbiz Corp Bhd, Axis Inc Bhd and CNLT (Far East) Bhd. More recently, Bursa Malaysia has asked Kenmark Industrial Co (M) Bhd to appoint a special auditor to investigate its affairs, in view of the recent developments affecting the company, while Linear Corp Bhd said a special task committee reviewing the company's financial records and statements would seek the advice of independent accountants on an ad hoc basis.

In some of these cases, the media glare is also linked to shareholder tussles or political agenda, but at the core of it all is the fact that such special exercises – whether called audits, reviews or investigations – are supposed to answer plenty of questions. How much dirt will the special audit unearth? How much has been siphoned away? Who are the culprits and who else will be blamed? What needs to be done to eliminate the weaknesses that have allowed the fraud to occur? What will the regulators do?

Most of all, the forensic accountants' work heightens our awareness of the importance of internal controls, fraud detection and good governance. Below are several other prominent examples of special audits of listed companies:

·Transmile Group Bhd Transmile was once a share market darling.

Encouraged by the fact that the air cargo player stood to benefit from the growth of intra-Asian trade and that tycoon Tan Sri Robert Kuok was (and still is) the largest shareholder, analysts recommended the stock and many institutional investors bought into the story.

Things abruptly began to fall apart in 2007, when the company missed the April 30 deadline for the submission of its audited accounts for 2006 because auditors Deloitte & Touche could not obtain from the management the necessary supporting documents for certain transactions relating to trade receivables and related sales, and purchases of property, plant and equipment. No longer sure about the reliability of the unaudited 2006 results, Transmile's board of directors appointed Moores Rowland Risk Management Sdn Bhd to conduct a special audit on May 7.

Some details of Moores Rowland's interim report were released on May 30, while the findings set out in the final report were announced on June 16. The headline item was the revelation that the company had overstated revenue for financial years 2004 to 2006 by RM622mil. This relates to invoices issued to over 20 companies. In connection with this, Moores Rowland uncovered irregularities in Transmile's trade receivables, cash receipts, and property, plant and equipment.

The final report also singled out CEN Worldwide Sdn Bhd, a major customer of Transmile and also a 37.5% indirect associated company. Moores Rowland recommended a review of the billing of sales to CEN and of the trade receivables owing by CEN. A special audit of CEN was commissioned. The adjustments following the special audit on Transmile dramatically slashed the carrier's shareholders' fund as at December 2006, from the unaudited figure of RM1.39bil (announced in February 2007) to RM619mil as per the audited balance sheet.

In July 2007, the Securities Commission (SC) charged three former Transmile senior executives – Gan Boon Aun (CEO), Lo Chok Ping (chief financial officer) and Khiudin Mohd (executive director) – for abetting the company in making a statement that is misleading in a material particular. Four months later, two ex-independent directors of Transmile, Chin Keem Feung and Shukri Sheikh Abdul Tawab, were charged for knowingly permitting the making of misleading statement to Bursa Malaysia.

Lo was subsequently compounded RM700,000 for the offence and he paid the sum. The other four are awaiting trial. Last April, Transmile filed a civil suit against Gan and Lo for breaches of duty. Meanwhile, Transmile has nosedived into financial distress. It was classified a PN17 company last February and its debt restructuring efforts have hit air pockets. On June 4, major subsidiary Transmile Air Services Sdn Bhd was served a winding-up petition in respect of its medium-term notes. At the height of its blue chip days,

Transmile's share price reached a high of RM14.40. Since March this year, it has not gone above 50 sen. Megan Media Holdings Bhd As with the Transmile case, the uncovering of fraud at Megan Media was a rude shock for corporate Malaysia. About a year before that, in June 2006, the optical media storage manufacturer had talked about a "sterling fourth quarter" for its financial year ended April 2006. However, in April 2007, the company announced that two major subsidiaries had defaulted on maturing trade facilities.

At the behest of its creditor banks, Megan Media appointed Ferrier Hodgson MH Sdn Bhd as investigative accountant for wholly-owned subsidiary Memory Tech Sdn Bhd. A preliminary report by Ferrier Hodgson highlights "substantial irregularities" in the Memory Tech's financial statements, fictitious trade creditors and debtors, undisclosed related party transactions, and a bogus deposit payment of RM211mil for production lines. Soon after the interim report was released, the SC started investigating the Megan Media group.

In December 2007, the regulator charged former financial controller Kenneth Kok Hen Sen and then executive chairman Datuk Mohd Adam Che Harun for making false statements. The SC had also obtained an arrest warrant against executive director George Yeo Wee Siong. In August last year, Kok pleaded guilty to one of four charges he was facing and was fined RM350,000 in default of a year's imprisonment. There has been no update from the SC on Mohd Adam's case. Yeo remains on the list of people wanted by the SC.

Megan Media could not sort out its financial woes, which was not surprising considering that a large chunk of its past revenues had been falsified. It failed to submit its regularisation plan to the authorities according to the PN17 timeframe and was delisted in April 2008. ·SCAN Associates Bhd The first indication that SCAN needed some financial detective work came in January 2009, when the board of directors dismissed CEO Datuk Aminuddin Baki Esa and lodged a police report. The ACE Market company explained that these actions were in connection with alleged misappropriation of funds.

SCAN then appointed Abu Bakar Rajudin (Corporate Governance Services) Sdn Bhd to conduct an investigative audit relating to the possible financial impact of the misappropriation. The report of the investigative audit was ready less than six weeks later, and the critical findings disclosed through Bursa included manipulation of earnings and of records of settlement of trade receivables. There was also mention of a RM1. 7mil payment to a supplier although there was no delivery of items.

The information and communications technology security solutions provider said the financial impact of these findings came to RM5. 86mil and would be reflected as prior year adjustments in the 2008 accounts. In addition, SCAN lodged another police report saying Aminuddin was “ involved in manipulating revenue figures amounting to approximately RM6. 8mil in 2005 and 2007 to mislead and defraud the board and shareholders about the company’s underlying performance. ” At the time of his sacking, Aminuddin was also a director and the company’s single largest shareholder.

In an extraordinary general meeting in March 2009, shareholders voted to remove him as director. However, according to the latest annual report, as at April 30 this year, he was still the leading shareholder. The company has been recording losses since 2007, although the deficits have been shrinking each year.

Golden Plus Holdings Bhd (GPlus) In August 2008, Bursa ordered GPlus to appoint BDO Binder as its special auditor by Sept 3 due to “ the lack of clarity in the management of the affairs of GPlus, which raises concern of investor protection. This move came after GPlus had not complied with the stock exchange’s directive for information and clarification. Also, GPlus had failed to submit its audited accounts and annual report for 2007 and its quarterly report for the period ended March 2008. The scope of the audit formulated by Bursa requires the special auditor to undertake an in-depth review of the financial and business affairs of GPlus to ascertain its compliance with the listing requirements. Based on the special auditor’s findings, Bursa would be able to make the proper evaluation and to take such actions where necessary, to protect the interest of GPlus shareholders and investors,” said the exchange in a statement. The company refused to appoint BDO Binder, saying there was a conflict of interest because Bursa and a former GPlus shareholder (which had attempted unsuccessfully to remove certain GPlus directors) had both wanted the special audit to be carried out.

GPlus even said it was considering legal action against Bursa. In November 2008, the exchange was granted leave to intervene in the winding-up proceedings against GPlus. This enabled Bursa to proceed with its application for a court order to compel GPlus and its provisional liquidator to appoint

BDO Binder as special auditor. However, the following April, GPlus announced that it, the provisional liquidator and Bursa have agreed that PricewaterhouseCoopers (or another firm they all agree upon) will be appointed the special auditor.

To date, the special audit has not started. Trading in the stock has been suspended since Aug 3 last year because the company has yet to submit its 2008 audited accounts. ·DIS Technology Holdings Bhd (DIST) Already in the red, DIST gave shareholders more bad news on March 8 this year when it said its last several quarterly reports may have been misstated due to an alleged employee fraud reported by Starlight Marketing Ltd, a major customer based in Hong Kong.

The information technology and consumer electronics manufacturer said the total revenue derived from Starlight in 2008 and 2009 was about RM131mil, while the balance owing by Starlight as at December 2009 was RM82mil. Said DIST: “ If the purported fraud is proven true, the impact on the company will result in no cash flow from this major transaction and this would have a major impact on the daily operations of the company. Due to the loss of cash flow, the company would have difficulties in meeting payments to its creditors and borrowers. On March 29, the company announced that it had appointed Wan Nadzir & Co to carry out an investigative audit. According to DIST, the report clears its personnel of any involvement in the alleged fraudulent sales to Starlight. The accounting firm also determined that sales to Starlight were properly supported by relevant documents and records. However, this is of little comfort to DIST. In April, it became a GN3 company, the ACE Market equivalent of PN17 status.

It still has not issued the audited 2009 accounts. As a result, trading in its shares has been suspended since May 10. Incidentally, on the same day, the company said the group's daily operations were badly disrupted and it was insolvent due to a litany of factors – its suppliers' refusal to sell on credit, waning confidence in its products, the retrenchment of most of its employees, its failure to pay EPF contribution and income tax, and the banks' withdrawal of its credit facilities.