



The Observer

08.10.2021

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❖ Auditors must be more upfront on reason/s behind their voluntary resignation

THE resignation of Lysaght Galvanized Steel Bhd's external auditor Ernst & Young PLT (EY) merely two days after being reappointed at the Company's 42nd annual general meeting (AGM) on 27 September has raised eyebrows given there was no apparent reason that could have prompted the latter to step down. Minority shareholders are left wondering what could have transpired to warrant the short two-day tenure of the external auditor.

The appointment of EY as the auditor for Lysaght was approved by shareholders during the AGM with 74.7% approval rate. As such, the tenure of EY as an external auditor of Lysaght was expected to be until financial year ending 31 December 2021.

However, in a stock exchange filing dated 1 October, Lysaght noted that it had received a notice in writing from EY expressing its decision to resign effective 29 September pursuant to Section 281(1) of the Companies Act (CA) 2016.

Section 281(1) of CA 2016 states that an auditor may resign by providing a notice of resignation to the company at its registered office. By so doing, the auditor's term of office shall come to an end after 21 days from the submission of the notice or from the date specified in the notice.

"The resignation of EY is on a voluntary basis," Lysaght said. "The board is not aware of any matter that needs to be brought to the attention of the shareholders of the company."

Lysaght further noted that it will appoint another audit firm as the company's new auditors and will make an immediate announcement upon the finalisation of the appointment.

Be upfront

While it is not wrong for EY to voluntarily resign as Lysaght's auditors, one wonders why the former sought re-appointment in the first place.

Given there is no element of wrongdoing involved, the external auditor should be more upfront on the reasons behind their resignation rather than making investors/shareholders second-guess or speculate on the reasons for the resignation.

Surely, external auditors owe a moral duty to the shareholders who appoint them to state their reasons for resignation.

Scouting for other incidences of auditors' resignation, Pimpinan Ehsan Bhd announced on 3 June that its auditor BDO PLT has voluntarily resigned and that the group has recommended the appointment of Crowe Malaysia PLT as its new auditor.

In its Bursa Malaysia filing, Pimpinan Ehsan said BDO which was re-appointed as its auditors in the previous extraordinary general meeting (EGM) held in June 2020 was slated to hold office until the conclusion of the company's next AGM of in 2021.

"Save for the above, the board is not aware of any matters that need to be brought to the attention of the shareholders of the company," added Pimpinan Ehsan.

However, in another similar event, poultry and egg producer Lay Hong Bhd stated the reason as to why its former auditor Ong Boon Bah & Co (OBB & Co) voluntarily resigned as auditor of the company on 27 November 2019.

In a Bursa Malaysia filing, Lay Hong said the resignation of OBB & Co was solely due to the firm's intention to withdraw its registration with the Audit Oversight Board (AOB) and not any other reason.

As such, OBB & Co was no longer eligible to be appointed as external auditor of public listed companies (PLCs).

Likewise, Yong Tai Bhd was also very upfront about the resignation of its auditor Ecovis Malaysia PLT who resigned on 4 June 2019 as the group intended to appoint another auditor.

"Ecovis who had been the auditors of the company were re-appointed at the last AGM of the company held on 22 November 2018 to hold office until the conclusion of the next AGM of the company. The resignation is on a voluntary basis as the company wishes to appoint another auditor" explained Yong Tai.

Inferences when external auditors resign mid-tenure

Minority shareholders generally infer that all may not be well when external auditors resign during the mid of their tenure – especially when no reasons are given for such resignations by the company or the external auditors. Very often we get boiler-plate reasons given by the company that the external auditor resigned voluntarily. Almost, always the external auditor does not state the reasons for their resignation. There were a few reasons given in the past which stated that the resignation was due to manpower constraints by external auditors, but this reason is puzzling as surely one of the criteria to be registered with AOB is to have adequate manpower.

Given the role played by external auditors as gatekeepers in the corporate governance ecosystem, it is legitimate to expect the actual reasons for the resignation of external auditors from the company – or at least from the external auditor. After all shareholders appointed you, should you not give a reason if you choose to resign?

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 11 – 15 October 2021

For this week, the following are the AGMs/EGMs of companies which are in the Minority Shareholders Watch Group's (MSWG) watch list.

The summary of points of interest is highlighted here, while the details of the questions to the companies can be obtained via MSWG's website at www.mswg.org.my.

| Date & Time | Company | Quick-Take |
|----------------------------|---------------------------|--|
| 15.10.21 (Fri) 09.00 am | MAG Holdings Bhd (EGM) | The EGM is to seek shareholders' approval for the proposed bonus issue of up to 471.68 million warrants on the basis of 1 warrant for every 4 existing ordinary MAG shares held by the entitled shareholders of MAG. |

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