

Institutional investors against ousting of Serba Dinamik's external auditor

By **LYA RAHMAN**

THE Institutional Investors Council (IIC) views with concern the issues surrounding Serba Dinamik Holdings Bhd, in particular the call by its non-independent non-executive director Datuk Abdul Kadier Sahib, who holds a 15.96% stake in the global oil and gas integrated engineering services provider, to remove KPMG PLT as the company's external auditors.

In a Bursa Malaysia filing late last Friday, the board of Serba Dinamik said an EGM would be convened to seek shareholders' approval pursuant to Section 311 of the Companies Act 2016 to replace KPMG with BDO PLT as the company's new auditors for its financial year ending June 30, 2021.

The crux of the matter is obviously not about the right of the company or shareholder to convene an EGM but one of transparency and governance, i.e. what is the justification and rationale to remove KPMG or is the justification given by management acceptable?

Issues raised by KPMG should be seen as a red flag with wide and far-reaching consequences. The issue surrounding financial transactions is itself a serious matter which warrants an in-depth independent investigation.

But as per response to the Bursa Malaysia query (also on May 28) as to whether any independent committee will be established internally by the board of directors to manage matters in relation to the independent review that the com-

pany has mooted, one cannot help wondering why members of the company's management must be part of the integral investigation committee.

In a filing to answer Bursa Malaysia's query, Serba Dinamik said the composition of the committee will mainly comprise non-executive directors, legal advisors, internal auditors, company secretary and representative of the management.

The involvement of management representatives on the investigation committee is not encouraged as this would definitely undermine the independence of the committee.

Intervention by regulators

Every seasoned investor would have wondered what is the urgency or rationale for Serba Dinamik to remove its external auditors even before the commencement of the company's internal investigation vis-a-vis the setting up of its independent committee.

Was the proposal to remove KPMG deliberated and agreed on by members of the audit committee? Has due process on the removal of KPMG and appointment of BDO taken place?

If it is the decision by the audit committee, why is it that a non-independent non-executive director who is also a shareholder is making the call?

In what capacity is he making the announcement?

As this involves the removal of external auditors, why is the audit committee chairman not making

such call?

This is given the term of reference of Serba Dinamik's audit committee – as published on its website – clearly states that the audit committee is responsible for recommending to the board the nomination of external auditors and deal with any question of dismissal of external auditors.

We hope that market regulators, namely the Securities Commission (SC) and Bursa Malaysia would swiftly look into this situation whereby a shareholder who is also a non-executive director moves a motion or initiates the removal of an external auditor prior to the commencement of an investigation and even before the company's board having deliberated findings by its independent investigation committee.

This is to prevent such development from setting a bad precedent especially given the decision to remove an auditor is not a matter that can be taken lightly.

Beyond that, it is strange for Serba Dinamik's management to feel that it is inappropriate for KPMG to raise the audit issues to the company's independent directors before discussing with the management considering that external auditors are duty-bound to raise any issue of concern to the company's audit committee.

Moreover, external auditors are also obliged to act as independent gatekeepers to ensure that the interest of the company and other shareholders are protected at all times.

Similarly, the company's board – especially the independent direc-

tors – should ensure that the company's governance process is not compromised at any time.

At the time of writing, however, Serba Dinamik is still unable to provide a strong basis and rationale for the removal of KPMG and the proposed appointment of BDO as replacement.

Neither were there any comments from the independent directors or audit committee chairman. Shareholders expect the independent directors to discharge their fiduciary duties in the best interests of the company and other minority shareholders without any obligation to any substantial shareholders or management.

On the flip side

Serba Dinamik owes shareholders – many of whom are in the dark – as to what are the reasons behind the company requesting an independent review and/or what is the scope of the review?

Very much connected to this is, have there been efforts on the part of the company's board of directors to conduct an internal enquiry to review the issues raised by KPMG?

In all fairness, this should be a better preposition than merely to call for the removal of KPMG which has served the company since 2013.

In ensuring that the best interest of the company and the interest of other shareholders are protected and not jeopardised, the members of IIC together with the Minority Shareholders Watch Group (MSWG) wish to state that they are

not in favour of the removal of KPMG at this juncture as there are still many issues that are not properly clarified and addressed.

Moreover, shareholders would expect a more transparent and credible approach in managing the issues raised by KPMG which have raised so many eyebrows.

MSWG had earlier issued a statement urging all minority shareholders to vote against the removal of KPMG.

In playing its stewardship role – led by the Employees Provident Fund (EPF) which holds a 10.16% interest in the company, Kumpulan Wang Persaraan DiPerbadankan (KWAP) and Permodalan Nasional Bhd with 5.2% and 5.34% respectively – IIC urges its members to vote against the resolution on the removal of KPMG at the company's EGM.

All-in-all, IIC calls on shareholders at every level – both institutional and retail – to join hands to stop this undesirable practice which undermines the process of good governance among Malaysian public listed companies.

It is important to restore confidence on how companies treat the external auditors in executing their role as gatekeepers to ensure that they are able to carry out their functions effectively and to whistle blow any undesirable or questionable conduct that can be detrimental to the company's interest.

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