



The Observer

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❖ Unexpected auditor resignation - a telltale sign for investors

Appointment and resignation of auditors are routine for businesses. Section 281 of the Companies Act 2016 (CA2016) states that an auditor may resign his office by giving a notice of resignation to the company at the company's registered office. The auditor's term of office shall end after 21 days from the date on which the notice is given or from the date as may be specified in the notice.

While familiarity fosters efficiency, it also breeds complacency. Therefore, companies are encouraged to periodically rotate their audit firms as part of sound corporate governance practice.

However, seeing external auditors resign before their term ends without prior indication is probably a telltale sign that things are not right.

A surprise twist of event

A recent case that has raised eyebrows in the investing fraternity is the recent announcement by Perak-based property developer YNH Property Bhd that its external auditors Baker Tilly Monteiro Heng PLT (Baker Tilly) would not seek re-appointment at the former's forthcoming AGM on 8 Dec 2023. The announcement was made three days before the AGM.

Intriguingly, Baker Tilly expressed their willingness to continue in office as stated in YNH's Annual Report 2023 issued on 30 October 2023.

The resignation resulted in YNH having to withdraw a resolution which was intended to re-appoint Baker Tilly as its auditor and to authorise the YNH board to fix its remuneration from the Notice of its 21st AGM. Subsequently, Baker Tilly ceased to hold office at the conclusion of YNH's AGM pursuant to Section 273(b) of the CA2016.

As we delve into the details, the resignation of Baker Tilly is not as straightforward as it seems.

Firstly, Baker Tilly already expressed its intention to continue in office, suggesting that it is prepared to continue carrying on its role and duties, so why the abrupt resignation at the eleventh hour before the AGM? YNH did not shed light on the reason for Baker Tilly's resignation in its announcement dated 5 December 2023.

Secondly, on 27 October 2023, Baker Tilly issued a qualified opinion on YNH's financial statements for the 18-month period ended 30 June 2023 in relation to the group's joint venture (JV) and turnkey contracts for property development work.

The auditor highlighted RM1.1 billion which had been included in YNH's inventories regarding the contracts entered into with the JV parties or landowners. Meanwhile, RM97.5 million was paid to the landowners during the financial period.

Besides, as the Group was subjected to queries and investigations by regulatory authorities regarding the JV and turnkey contracts during the said financial period, Baker Tilly said it had undertaken extended audit procedures as well as actively engaged with YNH's directors and its audit committee concerning the JV and turnkey contracts.

However, it could not obtain sufficient appropriate audit evidence that the JV and turnkey contracts entered with the respective JV parties or landowners are not related party transactions given the prevailing ongoing regulatory authorities' investigations and the Group's special review which have not been completed.

Potential red flag

The abrupt resignation of external auditors midway through their tenure often raises concern, particularly when adequate explanations are lacking.

Often, companies offer boilerplate explanations, asserting that auditors resigned voluntarily. Occasionally, explanations such as manpower constraints and disagreement over audit fees are cited. However, in many cases, these explanations serve to obscure underlying issues.

For instance, consider the recent case of a solar company that reported significant impairments worth hundreds of millions shortly after its auditor, who had served just slightly more than a year, resigned due to a "disagreement on unreasonable audit fee." Subsequently, the company incurred losses for the first time since going public. It took six months to appoint a new auditor and changed its financial year, underscoring the disruption caused by the resignation.

Similarly, let us not forget the saga involving Serba Dinamik Holdings Berhad. When KPMG PLT resigned following Serba Dinamik's decision to pursue legal action over audit matters, it signalled deeper underlying problems.

KPMG flagged audit issues involving transactions of more than RM3.5 billion in Serba Dinamik and resigned as its auditor on 24 June 2021 after the latter filed a court action against it. Alas, Serba Dinamik, once a stock market darling, saw its shares suspended, and it now faces liquidation, seeking white knights to participate in its restructuring exercise.

There have been numerous expressions of frustration among external auditors over the years that led to their sudden resignation but the reasons behind such action were obscured by the generic justifications, claiming auditors left voluntarily.

Given the pivotal role external auditors play as guardians in the corporate governance framework, stakeholders rightly expect transparency regarding the circumstances surrounding auditor resignations, either from the company itself or directly from the auditors.

MSWG Team

MSWG AGM/EGM Weekly Watch 11 – 15 March 2024

For this week, the following are the AGMs/EGMs of companies 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
12.03.24 (Tue) 10.00 am	MKH Berhad (AGM)	Despite recording a 10% y-o-y growth in revenue to RM1.06 billion in FY2023 (FY2022: RM968.1 million), MKH saw it posted lower net profit of RM117.2 million y-o-y, compared to RM171.3 million in the preceding year, mainly due to absent of sale of land and lower gross profit from Plantation Division as a result of lower average selling price of CPO and palm kernel and higher production cost.
13.03.24 (Wed) 10.00 am	Sunsuria Berhad (AGM)	In FY2023, the Group's revenue reached RM506.2 million, reflecting a 25.9% growth y-o-y. This growth resulted from increased property development and construction revenue, offsetting the reduced income in healthcare and investment holdings. Despite a 41% decline in property sales to RM501.6 million compared to RM850.9 million in FY2022, its unbilled sales of RM926.8 million as of 30 September 2023 should ensure strong earnings visibility through 2025.
13.03.24 (Wed) 10.30 am	Toyo Ventures Holdings Berhad	For FY2023, Toyo Ventures recorded a 19% decline in revenue to RM81.5 million as both the Ink Group and the EDM Group recorded lower revenues due to industry-wide slowdown. Nevertheless, it recorded a profit before tax of RM2.19 million compared to a loss before tax of RM0.14 million a year ago as both segments registered higher profits due to upward adjustment of selling prices of its products.

One of the points of interest to be raised:

Company	Points/Issues to Be Raised
MKH Berhad (AGM)	<p>1. Nexus @ Taman Pertama with a GDV of RM258.4 million launched in November 2020, achieved a take-up rate of approximately 45%. (Page 29 of AR)</p> <p>a) Why Nexus @ Taman Pertama recorded a low take-up rate of 45% as the Group's other property projects recorded much higher than take-up rates of more than 70%.</p> <p>b) What were the reasons for the low take-up rate in Nexus @ Taman Pertama.</p> <p>c) What measures the Group has taken to improve the take-up rate at Nexus @Taman Pertama.</p> <p>d) What is the current take-up rate for Nexus @ Taman Pertama as at the end of February 2023.</p> <p>2. The Group reported a provision for foreseeable loss of RM 2,080,070 in FY 2023 as compared to RM Nil in FY 2022. (Page 139 of AR)</p> <p>a) Please explain why there is a need for such a high provision.</p> <p>b) Is there any possibility the provision to be recovered in the future?</p>
Sunsuria Berhad (AGM)	<p>The Group recorded a much lower revenue of RM27.3 million of completed properties in FY 2023 as compared to a much higher revenue of RM 87.7 million in FY 2022.</p> <p>However, the gross profit margin generated from the sale of completed properties in FY 2023 was 46.2% as compared to 29.3 % in FY 2022. (Pages 191 & 192 of AR)</p> <p>a) Please explain why the Group managed to sell a lower volume of completed properties in FY 2023 as compared to FY 2022.</p> <p>b) Why the gross profit margin from the sales of completed properties in FY 2023 was higher as compared to FY 2022?</p> <p>c) What were the challenges faced by the Group in selling the completed properties in FY 2023 as the volume of sales that year was much lower than FY2022.</p> <p>d) What were the types and locations of the completed properties sold in FY 2023 as compared to FY 2022?</p>
Toyo Ventures Holdings Berhad (AGM)	<p>The Ink Group recorded a 25% decrease in revenue to RM34 million in FY2023, primarily due to industry-wide slowdown. Nevertheless, profit before tax increased 83% to RM1.04 million mainly due to upward adjustment of selling prices for products. In FY2023, the Manufacturing division under the Ink Group</p>

	<p>underwent a restructuring exercise. As a result, total sales volume was affected. (page 34 and 36 of Annual Report (AR) 2023)</p> <p>a) How much was the increase in the selling price of your products for this division in FY2023? How does it compare to the increase in the key input costs?</p> <p>b) Please elaborate more on the restructuring exercise. What were the key changes in your strategy or structure? How much was the decline in sales volume and value? Does the Group expect further decline in sales volume?</p> <p>c) Pre-tax margin improved to 3.0% in FY2023 from 1.2% in FY2022. What is the outlook for pre-tax margin?</p>
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• With regard to the companies mentioned, MSWG holds a minimum number of shares in all the companies covered in this newsletter.

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