

1MDB's ex-boss should be held responsible for weaknesses, says PAC

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The Public Accounts Committee (PAC) has opined that 1MDB former chief executive officer Shahrol Azral Ibrahim Halmi and others in the management should be held responsible for the weaknesses in the administration of the state-owned fund.

"In summary, PAC found the constraints and certain weaknesses in 1MDB management and board of directors.

"Particularly PAC was of the view that 1MDB ex-CEO Shahrol should take the responsibility for the weaknesses and constraints.

"As such, the enforcement agency was urged to probe Shahrol and other management," said the PAC's report on 1MDB.

In a statement to the media later, PAC chief Hasan Arifin said that the report must be studied in detail and followed up with investigations by enforcement authorities.

"If an offence is proven (to have been committed), legal actions must be taken," he said.

The PAC has finally tabled the long-awaited report to Parliament today, the last day of current sitting.

It drew the conclusion after scrutinising the Auditor-General's 1MDB report and the explanation from various parties.

"As a company, 1MDB should conduct the best practice. PAC found weaknesses in few practices of 1MDB management and board of directors," it said.

It also pointed out that the management had in few occasions breached the decision and advice of the board or they had acted before a specific decisions are made by the board.

"They had even made few investments and loans before thorough assessments are conducted," it said.

The PAC however did not recommend any action against Prime Minister Najib Abdul Razak, who had set up the company and chairs the advisory board.

"The advisory board should be abolished, together with Article 117 of (1MDB's) memorandum and articles of association," it suggested instead.

"All the reference should be made to the finance minister instead of the prime minister, as

practised by the subsidiaries of Minister of Finance Incorporated (MKD)."

Debts from RM42b to RM50b

PAC also said the board of directors depended and very often accepted explanations from the management without knowing the matter in-depth.

"The board of directors had failed in its responsibility in taking care the interest of the company and shareholders. It failed to take the necessary and proactive action in monitoring the management's activities and the cashflow of the company.

"Close monitoring is needed by the board of directors, including query on the cost of asset purchases and total debts," it added.

As a result, PAC has recommended that 1MDB's assets and subsidiaries - TRX, Bandar Malaysia, Air Hitam and Pulau Indah land) - be surrendered to MKD to ensure close and thorough monitoring.

"This should be a lesson to all the GLCs in the country, the importance on the effectiveness in administration and integrity in practice," it said.

"PAC found that the structuring financing model and its financial performance unsatisfactory. 1MDB just relied on debts (ranging from bank loans, bonds and Islamic bonds) as its company model."

The debts accumulated from RM42 billion in March 2014 to RM50 billion as of January 2016, while 1MDB needs to serve interest as high as RM3.3 billion to repay its mature debts between April 1, 2014 and March 31, 2015, report said.

"It was clear that the interest payments were so high compared to its cash flow.

"1MDB relied on refinancing to repay its debts and took new debts to clear its interest. The use of excessive debt in financing structure should not be allowed at all, especially when its cashflow was insufficient," it said.

1MDB had faced cashflow instability on November 2014, the management and the board then relied on initial public offering (IPO) of its energy asset Edra Energy Berhad, which failed ultimately as a result of internal problems.

As such, it suffered its first loss, a total of RM665 million announced on November 2014, which had eroded the confidence against the firm and 1MDB, and was unable to serve an almost-mature RM2 billion debt.