

1MDB auditors terminated after asking too many questions, PAC finds

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PAC REPORT 1MDB's former auditors Ernst & Young (EY) and KPMG had been replaced after insisting on seeing documents on some of the sovereign fund's dealings, according to findings of the Public Accounts Committee (PAC).

In particular, the PAC report said KPMG had already decided to issue a qualified audit report for 1MDB's 2013 financial report, but the audit firm was suddenly replaced by Deloitte.

“Based on minutes of a meeting between 1MDB and Messrs KPMG on Nov 29, 2013, (then 1MDB chief executive) Mohd Hazem Abd Rahman tried to convince Messrs KPMG about the investments. However, Messrs KPMG is not satisfied in the absence of any documentary evidence.

“In a 1MDB board meeting on Dec 9, 2013, Hazem informed that Messrs KPMG is dissatisfied and will hold a meeting to decide whether the information provided by 1MDB's management is acceptable and sufficient for the purposes of the audit, or to issue a qualified opinion. KPMG decided to issue a qualified opinion,” read the PAC report tabled in Parliament today.

Due to the growing rifts between KPMG and 1MDB, the report said, 1MDB told KPMG to seek clarification from its fund manager Bridge Global Absolute Return Fund SPC (Bridge Global) in the Cayman Islands.

On the following day (Dec 31, 2013) however, the Ministry of Finance Incorporated terminated KPMG's contract as 1MDB's sole auditor.

Fair value

In accounting parlance, qualified audit opinion means that accounting best-practices have not been adhered to, but there is no misrepresentation found in a company's financial report.

KPMG had signed off unqualified audits for 1MDB's annual reports for the financial years ending March 2010, March 2011, and March 2012.

Meanwhile for 1MDB's earlier auditor EY, the firm requested several documents in March 2010 to ascertain the fair value of the assets and liabilities in 1MDB's joint venture with PSI, and raised this issue again in a 1MDB board meeting about a fortnight later.

“This shows that Messrs EY is unhappy with the report and supporting documents provided. This caused Messrs EY to raise all kinds of questions and asked the management

to provide more information.

“Messrs EY could not find the documents regarding the actual ownership status, value, and risks related to the assets invested by the joint venture partner [...]

“Messrs EY's stance has caused unease to 1MDB's management and the shareholder and board of directors decided to terminate EY's services,” the PAC report said.

EY was appointed as the auditor to 1MDB's precursor Terengganu Investment Authority (TIA) on March 2009, and was terminated in September 2010 without signing off any of its financial reports.

TIA was renamed 1MDB on July 31, 2009.

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