

1MDB, MOF sue KPMG auditors for US\$5.64b: Report

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The Ministry of Finance Inc (MOF), its wholly-owned subsidiary 1MDB and five others have hauled to court the 44 partners of KPMG Malaysia linked to its audit of the troubled sovereign wealth fund, according to a report.

The Edge Markets reported today that the US\$5.64 billion suit was filed over purported breach of contract and negligence in the audit and certification of 1MDB's financial statements for the financial year between 2010 and 2012.

Besides the MOF and 1MDB, the other five plaintiffs are: the sovereign wealth fund's four subsidiaries; 1MDB Energy Holdings Ltd (1MEHL), 1MDB Energy Ltd (1MEL), 1MDB Energy (Langat) Ltd (1MELL), and Global Diversified Investment Company Ltd, formerly known as 1MDB Global Investment Company Ltd; and the Malaysian government.

Citing from the suit's 148-page statement of claim filed by law firm Messrs Shearn Delamore, the business portal reported that KPMG's contract as auditor

was terminated after it declined to sign off on 1MDB's 2013 financial year statements.

The latest legal action comes on the heels of 22 civil actions filed by 1MDB and its former subsidiary SRC International Sdn Bhd against various personalities and entities for allegedly defrauding them, whether knowingly or unknowingly.

The seven plaintiffs in the latest lawsuit reportedly claimed that around US\$5.64 billion were misappropriated from 1MDB and its subsidiaries between 2009 and 2014, for the alleged benefit of former prime minister Najib Abdul Razak and his associates or nominees.

They contended that Ernst & Young (E&Y) was initially appointed to audit 1MDB accounts, but it was not able to conclude the audit due to purported lack of sufficient audit evidence over the fair value and recoverability of 1MDB's alleged investment in its early joint venture (JV).

They claimed, among other allegations, that in September 2010, Najib directed that E&Y be sacked as 1MDB's statutory auditor and to appoint KPMG.

The plaintiffs alleged that 1MDB entered into a JV with PetroSaudi International, after it had obtained the RM5 billion Islamic Medium Term Notes (IMTN),

whereby a sum of US\$1 billion was agreed in exchange for 40 percent of equity stake in 1MDB PetroSaudi Ltd, a company registered in the British Virgin Islands.

Previously in the corruption trial against Najib, it was reported that US\$700 million of the JV funds were allegedly diverted to Good Star Ltd, a company under the control of fugitive businessperson Low Taek Jho or Jho Low.

The seven plaintiffs alleged that the misappropriations that followed were not red-flagged by KPMG in its audit of 1MDB.

They claimed, among others, that KPMG issued unqualified audit opinions on 1MDB's financial statements.

They alleged that the audited financial statements for 1MDB failed to give a true and fair view of its financial affairs, purportedly being contrary to the opinions expressed by KPMG in its audit.

The seven plaintiffs seek a total of US\$5.64 billion from KPMG.

The amount is calculated as: US\$1.83 billion allegedly misappropriated from the JV; US\$1.367 billion from 1MDB to Aabar British Virgin Islands (BVI) for alleged security deposits; US\$1.59 billion of alleged misappropriation from proceeds of

1MDB Global Investment Ltd bonds to Overseas Investment Funds; and US\$856,317 million purportedly misappropriated from the proceeds of two syndicated term loans procured by 1MEHL to Aabar BVI and Aabar Seychelles.

The plaintiffs also contended that interest of at least US\$1.43 billion had accumulated from the US\$5.64 billion, as of May 6 this year.

When contacted by Malaysiakini, Najib's lawyer Muhammad Farhan Muhammad Shafee said that they will be responding to the lawsuit accordingly.

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