Can govt sue past auditors of 1MDB?

Industry observer says the government - as a client - can do so in the absence of a regulatory body

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PETALING JAYA: The government can take legal action against the past auditors of iMalaysia Development Bhd (iMDB) should it find that the work done by them was not satisfactory or did not guard its interests, according to an industry observer.

“Employees Provident Fund (EPF), Lembaga Tabung Haji, Armed Forces Fund Board (LTAT) have their own oversight mechanism. Because they’re government, these people can sue them (auditors). They (government) can sue (auditors) themselves, which is more powerful (than any other party taking action).

“For some of the small listed companies, it’s hard for investors to sue auditors but for iMDB, LTAT and EPF, government or quasi-government... these guys can sue on their own and they’re more effective suing on their own,” the source told SunBiz, adding that iMDB’s executive committee can sue the auditors as a form of “self discipline”.

Finance Ministry officials were not available for comment.

The issue of auditors and their regulatory oversight has become a hot topic after auditors iMDB hired over the course of 2010 until 2014 backtracked on their audit reports on the state fund.

The latest move by KPMG called into question the role of audit firms in providing an independent and fair assessment of the accounts and entities they audit.

While audits are not designed to detect fraud, the absence of red flags on iMDB by the audit firms prior to official investigations, raises the question of whether there is cause for the government to seek legal recourse.

The Malaysian Institute of Accountants, the national accountancy body, declined to comment on the matter, given that the enforcement process is in progress, while the Companies Commission Malaysia (SSM) said investigations into the matter are ongoing.

“SSM has contacted KPMG Malaysia to seek clarification about the credibility of its audited iMDB financial accounts from 2010 to 2012. If we need further information, we will also seek clarification from other relevant parties. However, SSM is unable to furnish further details on the matter as it is under investigation,” SSM said.

SSM, as the corporate regulator tasked with the enforcement of the Companies Act 2016, has said it will ensure that necessary and immediate action is taken to comply with the Companies Act 2016, with regard to accounts filed with the commission.

The Audit Oversight Board, for one, despite a call for there to be changes to the law in 2015 itself to allow it oversight, has no jurisdiction over iMDB and, by virtue of that, its auditors.