

FELCRA BERHAD

Main Points

What we examined?

- FELCRA Berhad (FELCRA) is a subsidiary company owned by the Minister of Finance (Incorporated) [MKD] and the Federal Land Commissioner with a paid-up capital of RM500 million. The establishment of FELCRA is to implement a social mandate through Consolidation and Rehabilitation (P&P) programs and commercial businesses.
- Assessment on the FELCRA main activities covering two main Audit areas, namely the performance and management of the social mandate activities and commercial business for the year 2019 to April 2022.
- Two aspects that were evaluated for activity performance are achievements of output and outcome. Achievements of output were assessed based on Key Performance Indicators (KPI), performance of social mandate activities and performance of commercial business activities. The achievement of outcome were evaluated based on the dividend payment to the Government performance, distribution of dividends to participants performance and the satisfaction study of P&P program participants.
- The management activity encompassed three aspects that were the management of distribution dividends to participants, management of plantation and management of manufacturing. The management of trade receivables and the monitoring of subsidiary companies and joint ventures were also audited.
- Assessment on nine aspects of good corporate governance; namely the Chairman, the Board of Directors, the Company Secretary, the Group Chief Executive Officer, the Strategic Plan and KPI, the Standard Operating Procedures (SOP), the Audit and Risk Committee, the Internal Audit and the Nomination and Remuneration Committee for the year 2019 to April 2022.
- Analysis on the financial position were not done because the auditing of the financial statements for the period from 2019 to 2021 have not been finalized by Messrs. KPMG PLT.

Why is it important?

- Evaluate the achievement of FELCRA main objectives via consolidate, restore and develop land through the P&P programme.
- Evaluate the implementation of FELCRA's social responsibility to meet the needs, benefits and welfare of the targeted group in an

effort to improve the quality of life with the Government's intention in the 2003 Corporate Agreement.

- The Government's investment in FELCRA amounted to RM500 million.
- As of 2021, FELCRA had successfully acquired farms covering an area of 203,953 hectares and had 108,097 participants.
- For the period 2019 to 2021, FELCRA distributed dividends amounted RM801.05 million to FELCRA's participants.
- As of April 2022, FELCRA held shares ranging from 53% to 100% in 22 subsidiary companies and nine joint ventures with a shareholding ranging from 8.75% to 50%.

What we found?

- On overall, based on the Audit scope, the objective of the establishment FELCRA to consolidate, restore and develop land owned by participants has been achieved through its main activities of implementing social mandates (P&P programme) and commercial business. In terms of outcome, the Government did not receive dividends from FELCRA for the period from 2019 to 2021, however the P&P programme have a positive impact and have successfully enabled dividends to be distributed to participants according to the set targets.
- Activity management for plantation activities was inefficient due to non-compliance with the fertilization planning schedule and the harvest rotation schedule and foreign workers who have stayed beyond the validity period of the Temporary Work Visit Pass (PLKS).
- Manufacturing activity management was efficient and effective for bunches of fresh fruit grading activities and sludge removal. However, the maintenance management of factory machinery could not be determined due to an unplanned and unclear record system.
- As of April 2022, no dividend payment by the subsidiary company was recorded for the period from 2019 to 2021 due to the audit of the financial statements for that period have not been finalized.
- FELCRA's corporate governance practices were at satisfactory level but requires improvement for all aspects except the Internal Audit and Nomination and Remuneration Committee.

What do we recommend?

- Stakeholders need to consider the following recommendations:
 - take actions to help participants who do not receive dividends to solve the problem of operating costs and non-viable projects;
 - undistributed dividends amounting to RM67.14 million must be handed over to participants and trustees as soon as possible;

- maximizing the filling up of the farm workforce in accordance with FELCRA requirements so as to increase the productivity of the harvest and the company's income at an optimal level;
- a comprehensive review of the validity period of Temporary Work Visit Pass (PLKS) of foreign labor in all FELCRA farms;
- adopting a digital system for the effective maintenance management of the FELCRA palm mill in line with the development of the country's Industrial Revolution 4.0;
- trade debts amounting to RM10.66 million exceeding 360 days must be claimed immediately to avoid losses to the company;
- continuous monitoring of subsidiary companies and joint ventures companies in terms of business operations and financial performance; and
- ensuring that corporate governance is improved in relation to compliance with the terms of appointment of the Board of Directors and Group Chief Executive Officer; Board of Directors and Company Secretary capacity building programmes; preparation, updating, compliance and monitoring of SOP; KPI monitoring; as well as the independence of the Chairman of the Audit and Risk Committee.