KWASA LAND SDN. BHD.

Main Points

What we examined?

- Kwasa Land Sdn. Bhd. (KLSB) is a wholly-owned subsidiary of the Employees Provident Fund (KWSP) with a paid-up capital of RM1.770 billion. KLSB was established as a Special Purpose Vehicle (SPV) company to buy and re-develop the land of the Rubber Research Institute of Malaysia (RRIM) in Sungai Buloh, Selangor, owned by Malaysian Rubber Board (LGM).
- Assessment of the KLSB main activities for the year 2020 to April 2023 covered two main Audit areas, namely the performance and management of the Kwasa Damansara development activities. The performance activity was evaluated based on achievements of output and outcome. In addition, the management activity encompassed two aspects namely the management of real estate development and management of main infrastructure development were examined.
- Assessment on nine aspects of good corporate governance, namely the Chairman; the Board of Directors; the Managing Director; the Company Secretary; the Strategic Plan, the Business Plan and Key Performance Indicator (KPI); the Standard Operating Procedures (SOP); the Audit Committee; the Internal Audit; and the Nomination and Remuneration Committee for the year 2020 to April 2023.
- Analysis of financial positions were conducted on audited financial statements for the year 2020, 2021 and 2022.

Why is it important?

- To evaluate the achievement of KLSB main objectives via the Kwasa Damansara development activities.
- The development area of Kwasa Damansara covers 2,265.06 acres comprising of land for sale (1,324.49 acres) and land not for sale (940.57 acres).
- As at 31 December 2022, funds from KWSP worth RM2.941 billion in cash (RM2.469 billion) and non-cash form (RM472.45 million) has been disbursed to KLSB since its establishment.

What we found?

- Overall based on the Audit scope, the objective of KLSB to develop Kwasa Damansara has not been fully achieved according to the original plan set by the Economic Council. The Audit findings that require attention are as follows:

- the percentage of KPI achievement ranged from 11.8% to 90.6% for the year 2020 to 2022;
- the performance of Kwasa Damansara development was less satisfactory as the completed development plot of land for sale merely achieved 0.4% while the surrendered plot of land not for sale was 23.7% after 11 years from the approval of the Economic Council;
- the performance of real estate physical development project was less satisfactory due to eight out of 10 development partners had yet to start development while one development partner had canceled the Development Rights Agreement (DRA). In addition, only one development partner had completed the development of KWSP building (Phase 1) and started the development work for Phase 2 construction of business centers and parks in the plot C8;
- the social economic development of Kwasa Damansara could not be evaluated due to the absence of a mechanism for measuring the achievement of each aspect set by KLSB;
- the return to KWSP was less satisfactory as the actual Internal Rate of Return (IRR) achieved for the year 2020 to 2022 ranged from 3.97% to 5.13%, which was lower than the targeted IRR for the 25-year development period of Kwasa Damansara at 9.61%;
- EPF has yet to receive repayment of financing principal or dividends from KLSB profits since the establishment of KLSB. However, as at 31 December 2022, EPF has received a return of RM0.683 billion in the form of interest payments for financing by KLSB together with RM472.45 million in capitalised interest;
- the involvement of the Managing Director in the Tender Opening Committee was non-compliance with the applicable SOP and potentially create conflict of interest risk in the procurement process of development partners for three RFP project R3-4, R3-1 and R3-3, as well as one Best and Final Offer (BAFO) for project PJ EAST; and
- the Supplemental Letter for DRA R3-1, R3-2, R3-3 and R3-4 were not stamped in line with the interests of KLSB.

What do we recommend?

- The stakeholders involved should consider the following recommendations:
  - to inform the Economic Council on the revised target development period of Kwasa Damansara due to the fact that the company has not succeeded in realising the original development target within a period of 15 years and to reset the company's strategic direction;

- to intensify efforts to appoint competitive development partners to improve the physical performance of the Kwasa Damansara land plot development by ensuring that the eight development partners who had yet to start development, complete the project in accordance with the development schedule set in the DRA and to appoint new development partner to replace one development partner who has cancelled the DRA;
- to review the Kwasa Damansara development model and strategy to ensure KWSP earns the return on investment made in KLSB as well as returns for EPF contributors in the form of dividends payment;
- to carry out investigations regarding the non-compliance with the procurement procedures related to the involvement of the Managing Director in the tender procurement process; and
- to improve corporate governance in the aspects of:
    - establishment of the Board Charter to ensure the terms of reference related to the Board of Directors are clear and orderly defined;
    - appointment of independent directors to serve on the KLSB Board of Directors; and
    - updating the procurement procedures to ensure the procurement management of development partner complies with applicable guidelines.