

PART I

CONFIRMATORY OF FEDERAL AGENCIES' FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

PART II

ANALYSIS OF FINANCIAL STATEMENTS OF FEDERAL AGENCIES

PART III

KEY AUDIT AREA

Main Point

What we examined?

- The Audit of Financial Statements of Federal Agencies was conducted in accordance with Articles 106 and 107 of the Federal Constitution as well as Paragraph 5(1)(b) and (c) of the Audit Act 1957 [*Act 62*] which requires the Auditor General to check, investigate and audit any separate funds established in the Federal Territory, accounts of public authorities or bodies according to law.
- The Audit of Financial Statements for the Year ended 31 December 2022 includes 144 Financial Statements of Federal Agencies which consists of 134 Financial Statements of Federal Statutory Bodies and 10 Financial Statements of Federal Funds.

Why it is important?

- The Financial Statements of Federal Agencies were audited to form an opinion whether the financial statements give a true and fair view as well as to ensure relevant accounting records have been appropriately maintained and updated.
- The Audit on the Financial Statements was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI) and the Audit Guidelines on the Accrual Based Financial Statements.

**What we
found?**

**PART I:
Confirmatory of Federal Agencies' Financial Statements for
the Year Ended 31 December 2022**

Audit findings as at 11 January 2024 were as follows:

- 140 out of 144 Federal Agencies have submitted their Financial Statements for the year ended 31 December 2022 to the National Audit Department to be audited and verified.
- Four Federal Agencies have yet to submit their Financial Statements for the year ended 31 December 2022.
- 130 Financial Statements of Federal Agencies were audited and the Auditor General's Certificate has been issued:
 - 116 Financial Statements were given an Unmodified Opinion; and
 - 14 Financial Statements were given a Modified Opinion.
- 10 Financial Statements of Federal Agencies are still being audited.
- Three Federal Agencies have been given a Modified Opinion for three consecutive years, from the year 2020 to 2022.
- 11 audited Financial Statements for the year ended 31 December 2022 of Federal Agencies were tabled in Parliament.

**What do we
recommend?**

- Audit recommendations are as follows:
 - the Head of Federal Agencies should take appropriate measures to submit the Financial Statements within the stipulated timeline in compliance with Act 240;
 - the Head of Federal Agencies should ensure the relevant accounting standards and financial regulations are being adhered to ensure more organised, efficient and effective governance;
 - Federal Agencies should take proactive action to resolve all the issues raised; and

- Federal Agencies should participate in courses organised by the National Audit Academy on financial management and preparation of Financial Statements.

What we found?

PART II: Analysis of Financial Statements of Federal Agencies

The Audit analysis of Financial Statement for the year ended 31 December 2022 are as follows:

• Current Surplus or Deficit

- 80 Federal Agencies recorded current surplus amounting to RM54.677 billion.
- 50 Federal Agencies recorded current deficit amounting to RM4.570 billion.

• Assets and Liabilities

- The asset position of 130 Federal Agencies worth RM2,491.931 billion. This amount has increased by RM82.861 billion (3.4%) as compared to the asset position in 2021 amounting to RM2,409.070 billion.
- The liabilities position in 2022 for 130 Federal Agencies amounting to RM903.613 billion is an increase by RM119.896 billion (15.3%) compared to 2021 amounting to RM783.717 billion.

• Federal Government Grants

- A total of 86 Federal Agencies received operational and development grants from the Federal Government amounting to RM27.034 billion meanwhile 83 Federal Agencies have accumulated unamortised development grants amounting to RM25.535 billion.

- **Loans**

- A total of 24 Federal Agencies have outstanding loans amounting to RM123.137 billion. 10 Federal Agencies have the highest loan balance amounting RM122.388 billion (99.4%) as compared to the total loan value of RM123.137 billion.

- **Investment in Subsidiary Companies**

- A total of 53 Federal Agencies invested RM56.128 billion in 234 subsidiary companies. Out of this, 212 subsidiary companies are still active while 22 subsidiary companies are dormant.
- A total of 121 subsidiary companies recorded net profit for the year ended 31 December 2022 while 91 subsidiary companies incurred losses. Out of 212 subsidiary companies, 66 paid dividends to the Federal Agencies, amounted to RM1.910 billion.

What do we recommend?

- Audit recommendations are as follows:
 - undertake cost saving measures and strengthen revenue generating efforts to utilise the surplus revenue to carry out its functions effectively;
 - ensure the ability of Federal Agencies to continue operations, in accordance with the going concern principle and to reduce financial commitments based liabilities;
 - ensure the grants are being used in accordance with the objective within the stipulated timeline. Federal Agencies need to refer to the relevant Ministries regarding the balance of non-moving grants to optimise the benefits of the targeted groups;
 - ensure the loans made by Federal Agencies are utilised for main activities and meet the loan repayment schedule; and
 - review the incorporation of subsidiary companies with dormant status, or have suffered losses and fail to produce appropriate returns to avoid Federal Agencies being burdened with the operating costs of those subsidiary companies.

**What we
found?**

**PART III:
Key Audit Area**

The Key Audit Area for the audit of Financial Statements for the year ended 31 December 2022 involved the going concern principle for the Federal Land Development Authority (FELDA) and the PR1MA Corporation Malaysia (PR1MA) as well as the impairment of investment value and dividend payments to contributors of the Armed Forces Fund Board (LTAT).

**• Federal Land Development Authority (FELDA)
Prime Minister's Department**

- In 2022, FELDA incurred a net loss amounting to RM1.005 billion (2021: RM0.545 billion). The outstanding loans from external institutions for FELDA amounted to RM8.659 billion (2021: RM8.809 billion).
- **Dependency on Government Grants**
 - In 2022, FELDA received RM0.214 billion (2021: RM0.342 billion) grants. The reduction in grants received by FELDA affects its operational sustainability as FELDA is highly dependent on financial assistance from the Federal Government.
- **Loan Repayment Commitment**
 - Loans at the FELDA Group level, including the Tawarruq Financing Facility agreement entered into by FELDA's subsidiary company, FIC Properties Sdn. Bhd. (FICP), in 2017 with Govco Holdings Berhad (GovCo), a company under the Ministry of Finance Incorporated, amounting to RM2.500 billion.
 - FICP failed to repay the loan causing FELDA to enter into a new agreement with GovCo as corporate guarantor for the Tawarruq Financing Facility.

- **Cash Liquidity**

- In 2022, the Cash and Cash Equivalents amounted to RM0.808 billion. However, FELDA has significant commitments totalling RM1.561 billion.
- Based on the existing balance of Cash and Cash Equivalent, FELDA is unable to fulfil commitments amounting to RM0.753 billion.

What do we recommend?

- Audit recommends FELDA to:
 - establish a clear direction to operate with strong financial performance without further relying on assistance and financial support from the Federal Government; and
 - closely monitor the subsidiary companies' operations and their financial performance to ensure sustainability and viability without reliance on the parent agency and to be able to provide appropriate returns to FELDA.

- **PR1MA Corporation Malaysia (PR1MA)**

Ministry of Housing and Local Government
(formerly known as the Ministry of Local Government Development)

- In 2022, PR1MA incurred net loss amounting to RM0.257 billion and recorded liabilities amounting to RM5.746 billion.
- **Islamic Medium Term Note Loan Repayment (Sukuk Tranche 2)**
 - The sukuk loan balances amounted to RM3.792 billion (2021: RM4.542 billion). PR1MA needs to pay the debts by the year 2027 including Sukuk Tranche 2 amounting to RM1.750 billion which will mature in October 2024.
 - Based on Cash and Cash Equivalent amounting to RM0.428 billion as at 31 December 2022, PR1MA will encounter difficulties to repay the Sukuk Tranche 2.

What do we recommend?

- Audit recommends PR1MA to:
 - Re-evaluate their development strategy of residential and commercial projects based on current needs and market conditions to ensure marketability of completed residential and commercial units to be able to achieve PR1MA's project development objectives; and
 - ensure the cash projections from the sales of residential and commercial units can be achieved to fund operational activities and to settle the Sukuk Tranche 2 amounting to RM1.750 billion, maturing in October 2024.
- **Armed Forces Fund Board
Ministry of Defence**
 - The revenue of LTAT in 2022 amounting to RM0.653 billion, recorded an increase of RM0.139 billion or 27.0% (2021:RM0.514 billion). LTAT's net profit also increased by RM0.050 billion (13.1%), from RM0.383 billion in 2021 to RM0.433 billion in 2022.
 - LTAT has made a dividend payment in 2022 to contributors amounting to RM0.476 billion (5%) by using the net profit and accumulated profit.
- **Impairment of Investment in Subsidiary**
 - In 2022, LTAT's investment in 13 subsidiaries amounted to RM5.288 billion. This amount included investments in Boustead Holdings Berhad of RM2.550 billion and Pharmaniaga Berhad of RM0.106 billion.
 - LTAT did not provide impairment for investments in Boustead Holdings Berhad and Pharmaniaga Berhad amounting to RM0.768 billion and RM0.044 billion respectively which resulted in net profit for the year and investment in subsidiaries overstated by RM0.812 billion.

- **Negative Balance in LTAT Reserve**

- LTAT's reserve recorded a negative balance since 2020, RM0.376 billion in 2020, RM0.285 billion in 2021 and RM0.338 billion in 2022 respectively.
- There are 41 old share portfolios with an unrealised loss of RM0.662 billion, yet to be taken action until 31 December 2022 which contributed to the negative balance of reserves.

- **Dividend Payment to Contributors**

- In 2022, LTAT sold its shares of Perumahan Kinrara Berhad and Tanah Sutera Development Sdn. Bhd. worth RM0.043 billion to Perbadanan Perwira Harta Sdn. Bhd. (PPHSB) where in return, PPHSB issued shares worth RM0.232 billion to LTAT.
- LTAT has recorded a non-cash profit of RM0.189 billion which is used as the basis for dividend payment in 2022.

What do we recommend?

- Audit recommends LTAT to:
 - review and restructure their investment strategy by diversifying investments and not concentrating on investments in subsidiaries to mitigate the investment risk and income dependency;
 - improving the governance of investment management by way of improving investment policies to address the issue of shares with prolonged losses; and
 - ensure the dividend declaration is made based on realised gain to make sure it does not affect the ability of payout to the eligible contributors in future.