

PERBADANAN NASIONAL BERHAD

Main Points

What we examined?

- Perbadanan Nasional Berhad (Pernas) is mandated to be the sole agency to implement the Franchise Development Program as stated in the 9th Malaysia Plan (RMKe-9). The principal activity of the company is to provide franchise financing under the requirements of the Franchise Act 1998.
- Assessment was made on franchise financing activities which covered two main areas of Audit, namely performance and activity management. Activity performance includes the achievements of outputs and outcomes. Activity management consists of three aspects, namely application and approval of funding; financing disbursements; and financing repayment collections that cover aspects of non-performing financing and write-off bad debts of franchise financing.
- Assessment on nine aspects of good corporate governance, namely the Chairman; the Board of Directors; the Chief Executive Officer; the Company Secretary; the Business Plan and Key Performance Indicators; the Standard Operating Procedures; the Audit Committee; the Internal Audit; and the Board Nomination and Remuneration Committee for the period of 2018 to September 2021.
- Analysis of financial positions was conducted on audited financial statements for the year 2018, 2019 and 2020.

Why is it important?

- Pernas, which is mandated to lead the development of the franchise industry in Malaysia, plays an important role in pioneering and leading the growth of the country's franchise industry. This is to realize the Government's goal to produce more entrepreneurs in the franchise business.
- To evaluate the performance and management of Pernas in implementing the mandate, especially for the franchise financing scheme. As of September 2021, Pernas recorded financing approvals of RM580.01 million involving 2,620 franchise financing accounts.

What we found?

- Overall, Pernas has achieved the objectives of its establishment through the achievement of the mandate targets set. However, the lack of financial allocation received from the Government caused Pernas unable to continue to play its role. For the audit period, Pernas used the company's funds from other activities such as

investments and real estate rental in providing franchise financing facilities to the targeted public.

- Weaknesses in the management of franchise financing activities are as follows:
 - 15 (20%) out of the 75 application accounts approved prior to and in March 2020 were processed over seven working days. The delay period ranges from four to 76 days. The processing period for 37 accounts approved after March 2020 could not be determined because data of *Single Customer Credit Limit* (SCCL) endorsement dates and the offer letter dates were not in the S3P System;
 - 33 accounts (29.5%) were keyed into the system after approval was obtained. The period taken to key into the system ranges from three to 290 days;
 - 388 accounts (27.3%) involving balance outstanding amounting to RM26.72 million were non-performing financing (NPF) status;
 - no claim action either in the form of reminders or notice of claim was taken for 109 borrower's accounts (68.6%) with the status of written off amounting to RM35.17 million before the accounts were classified as NPF;
 - 12 borrower's accounts (6.6%) involving total financing of RM1.91 million (2.8%) were found not to have taken any remedial action after the accounts were classified as NPF;
 - debt arrears amounting to RM122.50 million involving 640 financing accounts have been written off;
 - no claim and remedial action were taken for one borrower's accounts (0.6%) involving financing amount of RM300,000; and
 - 168 out of 181 financing accounts (92.8%) that were not risk assessed had turned into the status of NPF and written off.
- Corporate governance practices were good, however, weaknesses pertaining to the confirmation of the Board Meetings' minutes and the frequency of the Board Audit and Risk Committee's meeting need to be improved.

What do we recommend?

- The stakeholders involved should consider the following recommendations:
 - strengthen the implementation mechanism and proposed improvements to the implementation of existing programmes through the appropriation of Government funds for the success of Franchise Development Programmes;
 - ensure the process related to the application and approval of financing is complied with the procedures and time set;

- take proactive and effective measures to collect arrears from financing accounts with NPF status to reduce the total outstanding balance; and
- ensure that corporate governance practices are improved pertaining to the aspects of learning programme planning for the Board; the role of the Company Secretary in the preparation of minutes of meetings; reporting on KPI achievements in the Board Meetings; preparation of SOPs and policies related to risk and credit assessment; compliance with the frequency of meetings of the Board Audit and Risk Committee; and the practice of Board Audit and Risk Committee meetings with the Head of Internal Audit without the presence of company management.