

FELCRA BINA SDN. BHD.

Main Points**What we examined?**

- An audit was conducted on the management of engineering activities carried out by FELCRA Bina Sdn. Bhd. (FELCRA Bina), a subsidiary company wholly owned by FELCRA Berhad.
- Assessment on the management of engineering activities for the period of 2017 until 2020 which covers two main areas of Audit, i.e. performance and management of activities. An audit was conducted on 25 projects valued at RM72.43 million, which contributed to the highest revenue.
- Assessment on nine aspects of best practices of corporate governance, namely the Chairman; the Board of Directors (BOD); the Chief Executive Officer (CEO); the Company Secretary; the Standard Operating Procedures; the Strategic Plan and Key Performance Indicators (KPI); the Audit and Risk Committee; the Internal Audit and the Nomination and Remuneration Committee.
- The analysis of the two years of audited financial statements for the year 2017, 2018 and management accounts for year 2019 includes analysis of income, expenses, assets, liabilities and cash flow.

Why is it important?

- To assess the achievement of the objective of FELCRA Bina in implementing engineering activities of building construction, mechanical, electrical and public works contractors for all types of public facilities and other related facilities. In addition, it is to assess the achievement as a property developer and contractor of building, roads and utility facilities to increase the value of the property.
- FELCRA Berhad as an investment arm of the Government has invested RM10 million in FELCRA Bina.
- Since its formation in 2000, FELCRA Bina has never been audited by the National Audit Department.

What we found?

- Overall, FELCRA Bina did not achieve the objectives of its establishment, the corporate governance was unsatisfactory and the financial position was less stable.
- There were weaknesses in the implementation of engineering activities such as:
 - all key KPI targets were not achieved for the period 2017 to 2020. For the sub-KPIs, only 13 (13.8%) sub-KPIs were

achieved out of 94 sub-KPI's targeted. KPI were not wholly presented to BOD;

- the profit trend was found to be declining and recorded a before tax loss of RM19.49 million and RM1.86 million in 2018 and 2019 respectively. The total of receivables in 2020 amounted to RM9.61 million could not cover the payables amounting to RM18.51 million;
- due to the loss, no dividend were paid to the parent company;
- the customers satisfaction survey were at a satisfactory level;
- activity planning was less efficient. FELCRA Bina did not perform engineering activities as a developer or contractor as per company's objectives. FELCRA Bina only managed the projects given and was unable to finance the cost of the project. FELCRA Bina also lack of expertise in engineering;
- inefficient implementation of activities were due to poor management of Extension of Time and insurance, completed projects have not obtained Certificate of Practical Completion and there were delayed in project activities;
- file management system was disorganized and only 13 out of 25 project meetings could be reviewed and verified; and
- inefficient management of debtors and creditors. FELCRA Bina did not follow up on debtors and the debtor's records was inaccurate. In addition, until 2020, the aging of creditors totaled RM16.56 million (89.5%) were more than 121 days, including debts on projects implemented before 2017 amounting RM11.19 million.

What do we recommend?

- The management and BOD of FELCRA Bina should consider the following recommendations:
 - review KPI so that the targets are in line with current activities and need to be presented to the Board so that it can monitor the annual achievements;
 - increase the ability to carry out construction activities by adding experts, human resources and equipment to achieve the company's objectives as well as improve the quality of projects to meet clients' needs;
 - The BOD should be notified that the appointment of subcontractors were done through the polling method and the Procurement Manual should also be updated;
 - set the rate of indebtedness and plan the cash requirements management so that debts are within control;
 - follow up with debtors on payment and settle payments to creditors. Records on debtors must be up-to-date and accurate to show the true position;

- ensure proper and orderly file management in accordance with item 7.5.3.2, ISO 9001:2015 and Operating Procedure Manual (OPM): Control of Documents and Records and easy to access whenever the information are needed; and
- ensure that all aspects of good corporate governance are fully practised to ensure the company enhance efficiency in achieving its objectives as well as enable the company to be better managed in terms of efficiency, transparency and responsibly.