

Audit Fiasco: Serba Dinamik ‘*Serba Tak Kena*’

Nor Hafizah Zainal Abidin

Department of Accounting, Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia

E-mail: nhafizah@iium.edu.my

Norhayati Mohd Alwi*

Department of Accounting, Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia

E-mail: mhayati@iium.edu.my

Norsyahida Mokhtar

Department of Accounting, Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia

E-mail: syahida_m@iium.edu.my

**Corresponding author*

Abstract: *Serba Dinamik has been listed couple of years ago and achieved tremendous growth in financial performance. The business expansion across different regions around the world has boost the market value of the company. However, in the financial year audit ended 2020, several audit issues highlighted by the auditor have created a wave in the industry on the issue of audit failure or corporate failure. The case outlined events happened throughout the turbulence and discussed the roles and responsibilities of auditor in handling the situation.*

Keywords: Serba Dinamik; KPMG; Audit failure

PROLOGUE

Within a week of the audit queries went public, on 31 May 2021, Serba Dinamik's shares plunged as they were traded at 86 sen, down from its previous week price of RM1.60. At this point, Serba Dinamik Holdings Bhd has lost more than RM3 billion, or half of its market value, resulting in a loss of confidence among investors and market watchers. Ever since the disclosure of red flags raised by the auditor, KPMG, over these transactions, Serba Dinamik's shares plunged more than 52 percent over the week, closing at 76.5 sen. While company officials, especially managing director and CEO Datuk Mohd Abdul Karim Abdullah has denied that something had gone wrong with Serba Dinamik's accounts, queries regarding more than RM4.54 billion worth of transactions the company has made have inevitably disturbed investors.

“This is KPMG you are talking about, not some small audit firm, and Serba Dinamik is a huge company. Why would KPMG risk its relationship with such a successful company?” one market watcher asks.

COMPANY BACKGROUND

Serba Dinamik Holdings Berhad (Serba Dinamik), is an international energy services group providing integrated engineering solutions to the Oil & Gas, petrochemical, power generation industries, water, wastewater and utilities industries. The company was incorporated as a private limited company in Malaysia under the name Serba Dinamik Holdings Sdn. Bhd. on 2 December 2015. The company later went public on 13 May 2016 with the establishment of 26 operational offices in countries such as Malaysia, Indonesia, United Arab Emirates, Qatar, Singapore, India, Netherlands, Switzerland and the United Kingdom (refer to Appendix A – Serba Dinamik’s subsidiaries and associate companies).

The company’s core business includes Operations and Maintenance (O&M), Engineering, Procurement, Construction and Commissioning (EPCC), Information & Communication Technology (ICT) and Education & Training (E&T). Indeed, Serba Dinamik has claimed itself leader in the Industrial Revolution 4.0 thanks to its aggressive expansion into digitalization, innovation and technology initiatives through wide arrays of offerings such as SMART Maintenance with Mixed Reality Solution, D-Virtual Expo, Qwik Pay and a few other smart applications. Customers of Serba Dinamik include well-established companies such as Petronas, Petrofac, EverSendai Oil & Gas, ExxonMobil, Qatar Petroleum, Adgas, Adnac, Dermot and Syabas.

As a consequence, Serba Dinamik found itself steadily paving its way to the Main Market listing on Bursa Malaysia on 8 February 2017. Total proceeds from the IPO were then utilized for the expansion of the group’s business and operational facilities. Upon being listed in 2016, the company and the group had consequently experienced tremendous growth in its financial performance. The company and the group went from reaping a net profit of RM144.88 million on revenue of RM1.24 billion in the financial year ended 31 December 2016 to a record profit of RM631.75 million on revenue of RM6.01 billion in the financial year 2020. Accordingly, the company recorded an annual growth in net profit of 44.5 percent and revenue of 48.31 percent.

AUDIT FIASCO

KPMG has served as the external auditor for Serba Dinamik from 2017 to 2020. However, in the course of audit activities for the financial year 2021, KPMG had raised several alarms regarding Serba Dinamik’s accounts. A summary of the audit issues is indicated in Table 1.

1. There were sales transactions worth RM2.32 billion, trade receivables (RM652 million) and material on-site balances (RM569 million), summing up a total transaction of RM3.54 billion which are unaccounted for.
2. In respect to certain transactions involving trade payables, there were issues concerning addresses of suppliers for the amounts owed ranging from RM60 million to RM96 million. These trade payables were coming from companies having paid-up capitals of only RM100,000.
3. Trade receivables of a customer in Bahrain, whose office address cannot be located, had US\$101 million (RM417.36 million) and US\$24 million (RM99.17 million) in sales transactions.
4. In reference to trade receivables and sales transactions for information technology contracts, it was found that the invoices of some suppliers had no company registration numbers. In some instances, there were issues with the companies’ names,

and with customers making payments directly to subcontractors, after which Serba Dinamik would receive the net amount.

5. KPMG had also found several cases of suspicious contracts. For example, one customer's principal activity was not IT-related even though the contract was for IT purposes. KPMG had in some cases been unable to determine "the appropriateness of the contracts and transactions as well as the revenue and cost recognised".

Details	In Values
<i>Items involving 11 customers</i>	RM (in million)
Total sales transaction	2,320
Trade receivables balance	652
Materials on site balance	569
<i>Items involving 6 local suppliers</i>	RM (in million)
Total transaction	481
<i>Bahrain's supplier & customer</i>	USD\$ (in million)
Total sales transaction	101
Trade receivables balance	24
<i>IT contracts involving multiple customers and suppliers</i>	USD\$ (in million)
Total sales transaction	Not disclosed
Trade receivables balance	Not disclosed

Table 1. Summary of Audit Issues
Source: The Edge (May 29, 2021).

KPMG flagged the statutory audit-related issues to the management of Serba Dinamik in late April 2021, which was during the term of annual statutory audit for the financial year end 2020. The issues were pertaining to Serba Dinamik's financial statement for the financial year ended 31 December 2020. The auditor raised the issues that the said transactions were in question and that the auditor was unable to determine the appropriateness of the contracts and transaction, revenue and cost recognized. For instance, KPMG sent out confirmations on the receivables balances and only one out of 12 customers replied. In order to speed up the process, Serba Dinamik had subsequently sent a second confirmation to the remaining 11 customers with the same outstanding figures and all relevant debtors replied. However, KPMG was unable to neither verify the authenticity of the confirmations nor validate the person signing the confirmation. In relation to the six local suppliers, two local suppliers were incorporated on the same day and the other four had the same registered address as the two former local suppliers.

In response to the audit issues flagged by KPMG, the Group Managing Director claimed that the management of Serba Dinamik did nothing wrong, and that based on the sequence of events, the external auditor acted in an 'unfair' and 'peculiar' manner as they reported the audit issues directly to the company's independent directors instead of briefing the management first. It is common practice that independent directors are not involved in daily operations of a company. Serba Dinamik's independent directors include KPMG Malaysia's former partner Hasman Yusri Yusoff, Nationwide Express Holdings Bhd's former managing director Rozilawati Basir, as well as accountant Sharifah Irina Syed Ahmad Razi and lawyer Tengku Datuk Seri Hasmuddin Tengku Othman. It is worthy to note that while Rozilawati and Sharifah Irina are independent directors of the company, they were also members of the company's audit committee alongside non-independent non-executive director Datuk Abdul Kadier Sahib and senior independent non-executive director Hasman Yusri.

In fact, some of the highlighted issues were very elementary in nature such as the differences in the names or addresses of Serba Dinamik's clients in contracts and invoice documents - which Serba Dinamik justified as administrative mishaps or merely due to typing errors. The auditors also found discrepancies in the commercial registration addresses of certain suppliers and customers such as supermarket housing or labour accommodation. In response, Serba Dinamik defended that the party had moved office or that the auditor had visited a wrong address. One of the directors, Datok Abdul Karim also commented that the approach adopted by KPMG during the audit was a bit different with regard to questions asked about transactions and balances. However, the return of some of the audit questions raised by the auditors during the current audit is due to diligence work conducted prior to the approval for the initial public offering in 2017.

The audit issues were first raised directly by KPMG to the independent directors in the middle of April 2021, which was close to the year-end audit closing period. The issues were later alerted to the board on 3 May 2021 to which the management responded to the queries on 6 May 2021. Upon highlighting the red flags to Serba Dinamik, the board requested KPMG to resign. KPMG refused to do so. The board eventually questioned the external auditor's capacity to complete the audit within the allotted permissible time frame, hence proposing to appoint another auditor. The change of the auditor was also supported by the company's second largest shareholder, Dato Abdul Kadir. On another note, the Minority Shareholders Watchdog Group (MSWG) issued a statement urging the minority shareholders of Serba Dinamik not to change the company's external auditor as this formed the best way to uncover the truth behind the audit issues raised by KPMG. The company's third largest shareholder was EPF, holding 10.16 percent of the company's shares, while KWAP and the State of Financial Secretary Sarawak hold 5.26 percent and 4.11 percent of the shares respectively. These figures come slightly behind those of Datok Abdul Kadir (15.96 percent) and Datok Abdul Karim (26.93 percent).

Subsequently, KPMG was blamed for delaying the completion of the statutory audit which had caused Serba Dinamik to miss the audit deadline by end of April. In view of that, the company has decided to change its financial year end from 31 December 2021 to 30 June 2022. The change in the financial year end was aimed to give KPMG an additional timeline to complete the audit. In a similar vein, the board has decided to establish a special independent review to assess the veracity and accuracy of the audit issues raised by KPMG after consulting Bursa Malaysia and the Securities Commission.

GOVERNANCE

It was apparent that significant changes in the dynamics of the board of directors of Serba Dinamik had occurred throughout the accounting turmoil. These changes appeared right after the company announced an independent audit review was to be held on the company's books for the year ended 2020. Including the Chairman, Dato' Mohamed Nor bin Abu Bakar, six other independent non-executive directors of Serba Dinamik resigned in 2021 (refer to Appendix B – List of Resigned Independent Directors). As of June 2021, there were only two independent directors left in the company. The company's Chairman, Dato' Mohamed Nor bin Abu Bakar has served as an independent director of Serba Dinamik since May 2016. The directors' shareholdings of the company from 2019 to 2021 are provided in Table 2 below:

Director	As of 1/4/2019	As of 30/04/20	As of 02/12/21
Mohd Abdul Karim Abdullah	348,252,200 (23.715%)	665,505,870 (21.713%)	-
Abdul Kadier Sahib	278,214,900 (18.946%)	591,901,290 (19.311%)	169,028,940 (19.183%)
Awang Daud Awang Putera	157,012,200 (10.692%)	294,635,020 (9.613%)	20 (0%)
Rozilawati Haji Basir	1,100,100 (0.075%)	210,000 (0.007%)	-
Mohamed Nor Abu Bakar	-	350,000 (0.011%)	-

Table 2. Directors' shareholdings of Serba Dinamik from 2019 to 2021

Source: Annual Reports

INVESTORS' CONFIDENCE

Since the listing of Serba Dinamik on the main board went public, the company had shown tremendous growth in its financial performance on a year-to-year basis. Serba Dinamik had recorded a net profit of RM 631.75 million on revenue of RM 6.01 billion in the financial year ended 31 December 2020. The company recorded compound annual growth rates in the bottom line of 44.5 percent and the top line of 48.31 percent (refer to Appendix C – Financial Statements for financial period ended 31 December 2017 to 2021 and Appendix D – Key Financial Ratios). In fact, the company planned to leverage its management team into businesses related to data centres and internet technology sectors with a focus on disruptive technologies. This has resulted in strong investors' confidence in the company's capability to sustain their business as well as to bring good returns on their investments.

However, once the audit issues were raised, Serba Dinamik's shares were immediately suspended from trading on Bursa Malaysia effective 18 October 2021. However, within six months, on 9 May 2022, the suspension was lifted with the shares being traded at 9 sen, way below its original price (refer to Appendix E – Share Price Fluctuations). Significantly, the lifting of trading suspension had not increased investors' confidence of Serba Dinamik's shares. The stock price continued to plunge and as of 1 September 2022, the company's shares were traded at 3 sen.

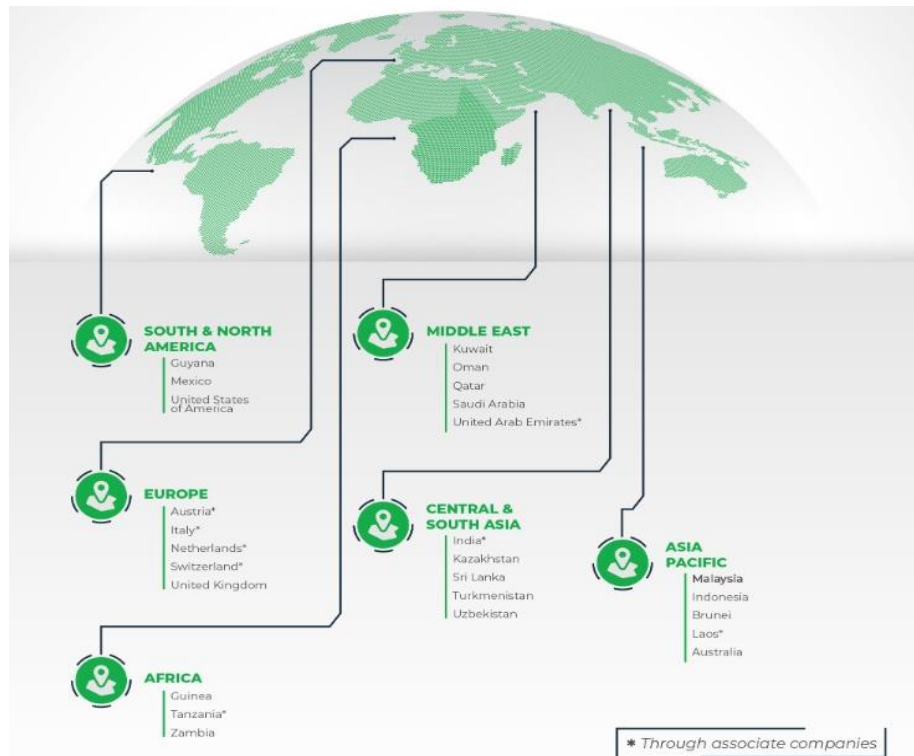
CONCLUSION

Has the Serba Dinamik fiasco come to an end? Was there really an accounting fraud?

In June 2021, based on the value of his paper wealth, Datuk Seri Mohd Karim has become poorer by RM 1 billion and counting. The company had to regain the trust and confidence of investors, bankers, suppliers, and customers as its reputation remain in question. In addition, institutional investors were also considering disposing their shares while it was at less than half of the listing price. Serba Dinamik was once a favourite among other institutional funds due to its profit growth rate and consistent dividend payments. The once financially reputable company is now forced to play a waiting game as it desperately awaits the verdict of the Securities Commission Malaysia with regard to its investigation of the company's alleged accounting fraud.

Appendix A

Serba Dinamik's Subsidiaries and Associate Companies



Source: <https://www.e-serbadk.com/about-serba-dinamik/>

Appendix B

List of Independent Directors (Resigned)

- Dato' Mohamed Nor bin Abu Bakar (Resigned: 19 June 2021)
- Hasman Yusri bin Yusoff (Resigned: 24 June 2021)
- Sharifah Irina binti Syed Ahmad Radzi (Resigned: 23 June 2021)
- Tengku Dato' Seri Hasmuddin bin Tengku Othman (Resigned: 24 June 2021)
- Rozilawati binti Haji Basir (Resigned: 23 June 2021)
- Dato' Mohamed Ilyas bin Pakeer Mohamed (Resigned: 22 November 2021)
- Johan bin Mohamed Ishak (Resigned: 22 November 2021)

Source: *Annual Reports*

Appendix C
Financial Statements for the financial period ended December 31, 2017 to 2021

Statement of Comprehensive Income	2021 (18 months) RM ('000)	2019 RM ('000)	2018 RM ('000)	2017 RM ('000)
Revenue	8,606,169	4,528,621	3,283,174	2,722,318
Cost of contracts with customers	(7,180,758)	(3,717,787)	(2,700,850)	(2,238,385)
Gross profit	1,425,411	810,834	582,324	483,933
Other operating income	23,327	8,382	7,866	4,074
Administrative expenses	(253,477)	(117,372)	(103,724)	(73,637)
Impairment of trade and other receivables	(394,998)	-	-	-
Inventories written down value	(552,592)	-	-	-
Other operating expenses	(18,391)	(10,801)	(13,134)	(32,271)
Finance costs	(332,843)	(202,773)	(62,122)	(37,071)
Finance income	36,387	21,522	12,535	3,135
Share of results of equity accounted associates	(27,423)	35,036	13,880	(2,092)
(Loss)/Profit before tax	(94,599)	544,828	437,625	346,071
Tax expenses	(90,774)	(46,845)	(44,783)	(41,279)
(Loss)/Profit for the period	(185,373)	497,983	392,842	304,792
Foreign currency translation differences for foreign operations	13,577	(8,660)	258	(61,180)
Share of other comprehensive income/(loss) of equity accounted associates	382	(1,918)	3,447	-
Total comprehensive (loss)/income for the period	(171,414)	487,405	396,547	243,612

Statement of Financial Position	2021 (18 months) RM ('000)	2019 RM ('000)	2018 RM ('000)	2017 RM ('000)
Non-current assets:				
Property, plant and equipment	2,208,686	1,688,617	1,273,090	658,126
Right-of-use assets	453,655	248,120	-	-
Investment in subsidiaries	-	-	-	-
Investment in associates	193,342	382,365	305,911	44,128
Other investments	56,561	14,516	503	307
Intangible assets	146,284	118,994	6,404	6,987
Deferred tax assets	606	255	501	2,810
	3,059,134	2,452,867	1,586,409	712,358
Current assets:				
Inventories	1,552,428	919,561	848,250	577,762
Contract assets	671,206	321,558	61,177	-
Trade and other receivables	1,638,971	1,256,132	957,277	880,334
Deposits and prepayments	248,113	108,916	67,265	40,320
Current tax assets	8,023	1,214	3,634	487
Other investments	53,191	51,172	69,952	48,469
Cash and cash equivalents	497,412	1,306,590	760,791	300,778
Asset classified as held for sale	-	-	16,000	-
	4,669,344	3,965,143	2,784,346	1,848,060
Total assets	7,728,478	6,418,010	4,370,755	2,560,418
Equity:				
Share capital	2,291,512	1,344,347	1,344,347	928,194
Treasury shares	(28,502)	-	-	-
Merger reserve	(434,709)	(434,709)	(434,709)	(434,709)
Foreign currency translation reserve	26,338	-	-	-
Other reserves	44,994	57,769	68,428	64,534
Retained earnings	1,057,257	1,465,318	1,110,109	825,833
Total equity attributable to owners of the company	2,956,890	2,432,725	2,088,175	1,383,852
Non-controlling interests	12,412	7,160	4,090	3,877
Total equity	2,969,302	2,439,885	2,092,265	1,387,729
Non-current liabilities:				
Trade and other payables	63,523	57,748	55,183	-
Lease liabilities	12,663	24,421	-	-
Deferred tax liabilities	59,979	30,906	30,707	15,636
Loans and borrowings	2,291,390	2,938,624	1,107,505	24,758
Employment benefits	513	691	643	592
	2,428,068	3,052,390	1,194,038	40,986

Statement of Financial Position	2021 (18 months) RM ('000)	2019 RM ('000)	2018 RM ('000)	2017 RM ('000)
Current liabilities:				
Trade and other payables	494,194	402,657	426,509	423,366
Lease liabilities	23,800	58,450	-	-
Contract liabilities	132,815	35,736	18,559	-
Loans and borrowings	1,648,564	400,903	603,951	681,284
Current tax payable	31,735	27,989	35,433	27,053
	2,331,108	925,735	1,084,452	1,131,703
Total liabilities	4,759,176	3,978,125	2,278,4906	1,172,689

Appendix D Key Financial Ratios

	2021	2019	2018	2017
EPS	(4.74)	16.10	12.79	23.58
GP Margin (%)	16.56	17.90	17.74	17.78
Revenue growth (%)	-	37.93	20.60	25.55
Current ratio	2.00	4.28	2.57	1.63

Appendix E Share Prices Fluctuations



Source: <https://www.e-serbadk.com/stock-information/>

REFERENCES

- <https://www.theedgemarkets.com/article/cover-story-serba-dinamik-eye-storm>, 17, June 2021
- The Edge (May 25, 2021) Serba Dinamik's external auditor flag statutory audit matters, to set up independent review.
- The Edge (June 3, 2021) Serba Dinamik's independent non-executive directors express concern over audit issue
- The Edge (June 7, 2021) SC investigates the dynamics of Serba Dinamik's accounting
- The Edge (June 22, 2021) What Serba Dinamik says on its audit issues today.
- The Edge (May 29, 2021) KPMG raised audit issues on transactions involving over RM 3 billion, says Serba Dinamik

DISCUSSION QUESTIONS:

1. Does KPMG perform relevant audit procedures in accordance with the required auditing standards prior to reporting audit issues to Securities Commission? Discuss.
2. Discuss the effectiveness of audit committee in handling audit issues raised by the KPMG.
3. Discuss the basis of defence that could be used by KPMG in facing the lawsuit from Serba Dinamik.