

Date : 3rd March, 2018.

THE GENERAL MANAGER
THE ROYAL LAKE CLUB
Taman Tasek Perdana
Jalan Cenderamulia
Off Jalan Parlimen
50480 KUALA LUMPUR.

Dear Sir,

We would like to report back to the House, that had appointed the Turn-Around Committee (TAC), on the work done to date, and to adopt the appropriate resolution, as presented below.

RESOLUTION

It is resolved that the house appoints a standing committee to be named as the **Financial And Accounting Systems (FAAS) Committee.**

It is further resolved that the house appoint ^{five} ~~three~~ members to serve on this committee for a term of three years. The FAAS committee shall comprise of Club members who have professional knowledge of the subject areas, including

- a. Accounting and bookkeeping,
- b. System of internal control procedures,
- c. Computerized accounting and financial management application systems,
- d. Project management of accounting and financial management application systems, and
- e. Practical experiences and knowledge of current ICT systems.

It is further resolved that the FAAS committee reports to the house, and be fully empowered by the house to carry out its many roles, including,

- a. To ensure that the Club's accounting system is reliable, available, and serviceable,
- b. As its immediate deliverable, the FAAS is to assist the General Committee (GC) and the Finance Subcommittee (FSC) to produce management accounts by the 5th of every month,
- c. To implement an effective budgeting system, to be integrated with the Club's general ledger system,



BRANDAL KALIS
QUALITY MANAGER
9/3/18
10:30 PM.

- d. The FAAS would be responsible for development of accounting and finance SOPs, and for the training of users, and in complying with these SOPs,
- e. To be responsible for the design and implement an effective Financial MIS (FMIS) system, and to train GC and other users in the use of the FMIS system for effective financial management of the Club,
- f. To prepare annual budgets for its operations and to present these budget at the AGM for the house's approval, and
- g. To prepare annual reports, and to present these reports to the AGM for the house's considerations and approval.

It is resolved that the TAC be empowered to appoint five members to serve on the FAAS committee, for the a term of three years.

JUSTIFICATION FOR THE CREATION OF THE FAAS STANDING COMMITTEE

1. Never ending problems of the Club's accounting systems

- a. The 2017 General Committee (GC) could not present audited financial reports of the Club, at its AGM held on 10th December 2017. Similar problems had happened in 2014, 2015, and 2016.
- b. The Finance Subcommittee (FSC) was unable to produce management accounts when required. Thus the Club's external auditors Messers Azman Wong & Salleh (AWS) could not begin their auditing on time. Hence the GC was unable to present audited accounts for members to consider and approve.
- c. The Club's financial year ended on June 30th 2017. The AGM was held on 10th December 2017. The delay in preparing the management accounts for the financial year 2016/2017, was about six months.

2. The Club incurred huge costs due to the accounting system's problems

- a. Over the last several years, the problems of its accounting system have cost the Club dearly.
- b. As reported in the 2017 Finance Subcommittee Report, in November 2017, the Club had engaged an outside accounting firm, SBY, to prepare the management accounts for the 2016/2017 year.
- c. Only during the AGM, it was revealed by the FSC, that the accounting firm, SBY, was paid RM50,000.00. This amount was, however not stated in the 2017 FSC report itself.
- d. Since December 2017, the Club had also engaged, on contract, a Club member, as its Finance Manager, at the cost of RM8,000 per month.

- e. If the so called Finance Manager is engaged for 12 months, this would amount to RM96,000 per year.
- f. His contracted role is to prepare management accounts from July 2017 until the current date. Thus, although he was given the job as Finance Manager, his contract and thus his preoccupation, was and is to perform monthly closings of the accounts, and to prepare the monthly management accounts.
- g. The job title of Finance Manager, is therefore somewhat of a misnomer. Getting the management accounts prepared would involve more bookkeeping and accounting tasks, and less of finance management tasks.
- h. The Club has to call for an EGM to present the audited reports to members and to seek the house's approval. The ROS has given the Club until end of April 2018 to call for the EGM.
- i. The cost of calling an EGM would normally be about RM50,000.00. Thus the total cost of not being able to get the accounting system to function effectively in 2017, would cost the Club about RM196,000.
- j. As the Club is incurring operating losses (RM3.5 million in 2016, and RM4.5 million in 2015) this amount would have to come from the Club's fixed deposits. As at 30 June 2016, the Club's FD stood at only RM27.4 million. It would be considerably less now.

3. The Club's long history of paying and paying for accounting systems

- a. The accounting system currently in use at the Club is a general ledger (GL) System called Web Prolific (Web Pro), and a membership system called Club Management System (CMS). Both are provided by a software company called Ubiq Global.
- b. The Club paid to Ubiq Global RM294,000, in software licence, for the Web Pro GL system and the CMS System . Annually the Club has to pay another RM64,175 for software maintenance charges.
- c. Having paid so much money, (*and depleting its FDs*), the accounting problems of the past years should be just that – problems of the past. But as it turns out .. that is not to be.
- d. The accounting problems faced by the Club started when the Club changed its accounting system and implemented the IFCA system. The Club had paid RM394,375 to IFCA in SW license. The Club may have paid or incurred other costs in relations to this aborted project.

- e. That the IFCA project ended in a complete disaster, is well known. The system installation and migration project was poorly planned and executed. Members were incredulous to learn that the IFCA system was committed to live production without any pilot run or even proof of concept run.
- f. As a result, the 2013/2014 accounting system became a spectacular failure. The Club's external auditors, AWS, give the most damning verdict possible in any statutory audit, i.e. **"we do not express an opinion on the financial statements"**.
- g. The 2014/2015, and the 2016/2016 audits also resulted in a qualification by the auditors. The recently concluded 2016/2017 audit also earned AWS's qualification
- h. In 2013, the Club engaged a Mr Liew Chee Num, as Finance Manager, for about 6 months at RM15,000 per month, to solve the accounting problems. At the end of the contract, he was also paid an ex-gratia payment of RM30,000.
- i. His contract was extended into 2014. But he left at the end of April 2014. Therefore, the Club would have paid a total of RM180,000, to Mr Liew.
- j. The accounting problems continued to plague the Club. In February 2014, the GC then engaged an accounting firm LYO, at the cost of about RM24,000. Still, many of the Club's accounting problems remained unsolved.
- k. The external audits of 2013, 2014, and 2015 revealed many serious problems with the Club's accounts. One problem was that 68 cheques amounting to about RM500,000 could not be accounted for. The Club then engaged BDO, at the cost of about RM120,000, to solve the problems.
- l. From the above information, the total amounts the Club spent to date, on acquiring and changing its accounting systems, and on outside accounting services, amounted to RM1.272 million. As stated before, this was paid for from the Club's fixed deposits.
- m. The Club's accounting problems are most likely going to persist. There are indications that the Club continues on '**business as usual**' basis, in handling its accounting operations.

4. A cursory review of the operations of the Club's Finance Department had revealed many weaknesses

- a. A mere cursory review of the operations of the Club's accounting system, revealed that many of the features of the Web Pro GL, and the CMS systems, that could improve internal controls, were not used. Examples include,

- i. **Purchase requisitions** were not created by users, but by the storekeeper. He did it, so as to enable him to use the system to generate **purchase orders**,
 - ii. Vendor invoices were entered by the store keeper, instead of by an independent staff, in the Finance Department, who is not linked to the store operations,
 - iii. The storekeeper selects the invoices and initiates payments to vendors, instead of by an appropriate finance executive, who has responsibilities for working capital and or treasury management,
 - iv. Payment journal vouchers (PJV's) were not used to obtain prior management approval, before cheques are prepared for payments to vendors, and etc.
- b. The budgeting facility of the GL system was never used. Instead the Finance Department created a rudimentary budget using Microsoft Excel system. Budget analysis and reports, that compares actual figures against budgeted figures, were not produced,
 - c. The cash book ledgers in the GL system were not used to record banking transactions, but only to post monthly total deposits and withdrawals. This practice continues to compound the problems of producing monthly bank reconciliation reports,
 - d. The bank reconciliation process is not readily auditable. The matching of entries in the bank statements, to the entries made in the MS Excel files were done on the screen. Audit trails were not generated to facilitate independent verification of the matching of the banking transactions,
 - e. Had the cash book ledgers in the GL system, been properly operated, the bank reconciliation facility of the Web Pro GL system could be used to speed up the bank reconciliation processes,
 - f. Information obtained from Ubiq Global revealed that there are users of the Web Pro GL system, who have obtained, their monthly bank statements, in computer files (in CSV or Excel formats) from their banks. This had enabled them to **automate** the transactions matching process, thereby speeding up their bank reconciliation processes,
 - g. The GL system's facility of 'virtual closing' was never used by the Club. Instead the Finance Department operated a 'manual closing' regime. This had delayed the generation of management accounts by as much as six months,
 - h. The Finance Department is 14-staff strong. But it does have a single employee with bookkeeping qualification,

- i. The senior executive, assigned to be in charge of the GL operations, has no qualification or training in bookkeeping or accounting. Yet, another senior executive, who has a degree in accounting and is pursuing the ACCA qualification, part time, is assigned to be in charge of the CMS system, which is just a subsidiary system to the general ledger system.
- j. We believe, unless the GC and the FSC understand these issues, and take the appropriate interests and put in the required efforts, to handle these and many other issues, the Club would be condemned to face the same accounting problems, year after year, and would continue to incur unnecessary costs.

5. AWS had told the GC of systemic weaknesses in the Club's accounting systems and in the Finance Department

- a. Azman Wong Salleh had documented, in details, and had officially communicated to the GCs, numerous critical weaknesses in the Club's accounting system, the Club's internal control procedures, and the capacity of the department's staff to effectively carry out the accounting functions.
- b. The AWS's management letters for 2013, 2014, 2015, and 2016 are enclosed.
- c. The 2013 management letter reminded the GC to improve the Club's accounting system, its system of internal controls, and to have adequate staffing for the finance department,
- d. The 2014 management letter is totally focused getting the GC to provide basic bookkeeping data. This showed the extent of the mess, the Club's accounting system had descended into,
- e. The 2015 management letter reminded the GC to again improve the Club's accounting system and its system of internal controls, and
- f. The 2016 management letter again reminded the GC to improve the Club's accounting system and its system of internal controls, and the staffing capacity of finance department.
- g. The above management letters issued by AWS, had clearly shown that four successive FSCs, and by extension four GCs, had either chosen to ignore the AWS management letters, or were ignorant on what actions were required, to respond and to implement the AWS recommendations.

6. GCs had ignored house resolutions on accounting matters

- a. In the 2014/2015 audited financial statement, the Club had included as an **operating expense**, i.e. written off, an amount of RM2,755,688 as prior year adjustment.

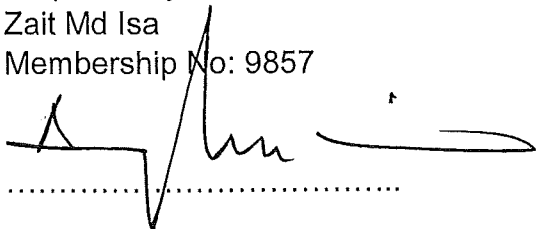
- b. As a footnote, it was stated in the financial report that “ **net adjustment amounting to RM2,534,557 which are not identified to specific expense items have been consolidated under operating expenses**”
- c. The house passed a resolution in 2014 which required the GC to investigate the accounting errors, that had resulted the Club to make the very substantial write-off.
- d. The house wanted the GC to undertake all necessary efforts to investigate the accounting errors and to rectify the accounts.
- e. The GC was required, by the house, to make police reports, in the event any frauds were uncovered.
- f. To date these errors are still on the Club's books. The current, and future GC/FSC, should make every efforts to resolve this matter.
- g. In view of the foregoing, the house should prohibit any member, who had previously participated in problematic accounting system projects, or who had served on the Finance Subcommittees, under whose watch these accounting problems had occurred, from participating in current or future accounting systems projects or from being a member of the Finance Subcommittee.

7. Summary and recommendations

- a. The information presented above clearly justify the establishment of a standing committee to be responsible to solving the accounting system problems, once and for all.
- b. The standing committee would called the Finance and Accounting System (FAAS) Committee.
- c. The standing committee, shall report to the house, and presents its annual report, at every AGM.
- d. The Finance Department would continue to come under the purview and management of the GC/FSC, but will work closely with the standing committee, in operating the Club's accounting system.
- e. The proposed standing committee will have full authority over the design and implementation of the Club's GL and CMS systems, and any other application system that is integrated with the GL or the CMS system.
- f. An initial three members to this committee, once appointed by the house, will serve for a term of three years. Henceforth, the house will reappoint new or the existing members, to serve on the committee for three-year terms.

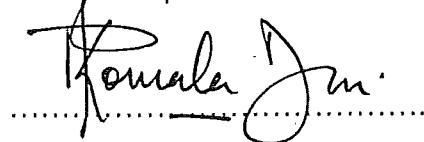
- g. The FAAS would have many roles. The main role would be to ensure that the system in use is reliable, available, and serviceable.
- h. The immediate deliverable of the FAAS is to assist the GC/FSC to produce management accounts by the 5th of every month.
- i. The FAAS must ensure an effective budgeting system to be implemented and integrated with the general ledger system.
- j. The FAAS would be responsible for development of finance and accounting SOPs, and the training of users in complying with these SOPs.
- k. The FAAS would be responsible to design and implement an effective Financial MIS (FMIS) system and to train GC and other users in the use of the FMIS system.
- l. The FAAS would be responsible to prepare an annual budget for its operations and to present this budget at the AGM for the house to approve.
- m. The house is recommended to empower the TAC to appoint five members as members of the first FAAS standing committee.

Proposed by;
Zait Md Isa
Membership No: 9857



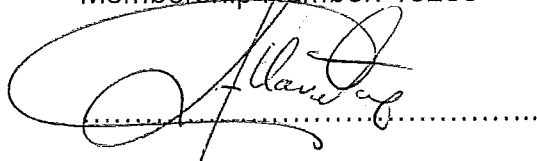
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Seconded by:
Datin Paduka Komala Devi Perumal
Membership No: 9690



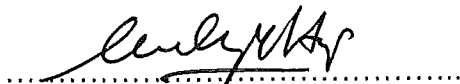
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Allan G. Goonting
Membership Number: 13283



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Chua Chye Hup
Membership Number: 16652



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