Ex-auditors turn shareholders with stake in K Plas

Concerns over potential conflict of interest raised

By JAMIE LEE
[SINGAPORE] K Plas Holdings—a precision plastic injection moulding firm—is issuing shares to some partners of its former auditing firm to raise half-a-million dollars, after other efforts to raise funds failed.

This also gives Stone Forest Corporate Advisory—which was hired by K Plas to bring in investors—a substantial stake indirectly. Stone Forest is run by a partner of K Plas’s previous auditing company, RSM Chio Lim Stone Forest.

“Stone Forest had assisted the company in their discussions with several prospective investors but such discussions were not successful due to market conditions and the performance of the group,” K Plas said in a regulatory filing yesterday. “Stone Forest decided to invest on account of its good relationship with the company.”

The share subscriber—Stone Canyon Capital—had agreed to subscribe to 9 million shares at 6 cents each, representing about 10 per cent of the company, K Plas said earlier this month.

The company disclosed yesterday that the directors and shareholders of Stone Canyon Capital include Chio Kian Huat, the chief executive of RSM Chio Lim, and Lim Lee Meng, a senior partner at the auditing firm.

RSM Chio Lim resigned as the auditors on Sept 15 after Stone Forest was hired as a consultant, an earlier filing showed.

It is also the auditor for Cheso Machinery, a private business owned by some company directors including non-executive chairman Chin Fook Lai, financial controller Chong Kian Lee told BT.

Ms Chong said that as its Singapore-based unit K Plas Industries had shifted its operations to China two years ago, the company sold less than 10 plastic injection machines and accessories to Cheso Machinery recently. She said K Plas was paid $121,000 last year, followed by a $17,700 payment during the first six months of 2008. These were deemed immaterial to the company.

K Plas said that Stone Canyon Capital and Stone Forest have no “price-sensitive” information from Stone Forest’s consultancy work at K Plas and that the audit committee has seen no conflict of interest.

But auditors must avoid actual and perceived conflicts of interest, said Mak Yuen Teen, co-director of the corporate governance and financial reporting centre. “They must not be too cozy with a client,” Professor Mak told BT.

He said that while RSM Chio Lim had resigned, they had done audits for K Plas in the past.

“The auditors may be perceived as putting a business interest ahead of discharging their duty as auditors by resigning to pursue a business investment,” he added, noting that this puts the spirit of professional ethics into question.

Prof Mak also said that while the transactions between K Plas and Cheso Machinery might have been immaterial to the company, annual gifts from a client exceeding $200 are considered sufficient to taint the independence of the auditor, under the code of professional conduct and ethics for public accountants.

He added that the audit committee might be perceived as lacking objectivity since “the company appears to need the funds from this placement rather desperately.”