

# Audit Committee Report

## MEMBERSHIP AND MEETINGS

The members of the Audit Committee are wholly Independent Non-Executive Directors. The details of members and attendance of meetings held during the financial year ended 31 December 2008 are as follows:

<b>Name of Committee</b>	<b>No. of Meetings Attended</b>
Major General Lai Chung Wah (Rtd) (Chairman, Independent Non-Executive Director)	7/7
Dato' Iskandar Michael bin Abdullah (Member, Independent Non-Executive Director)	7/7
General Dato' Sri Hj. Suleiman bin Mahmud (Rtd) (Member, Independent Non-Executive Director)	7/7
Datuk Razman Md. Hashim (Member, Independent Non-Executive Director)	5/7

The Company has fulfilled the requirements of Section 15.10 (1) of the Listing Requirements of Bursa Malaysia Securities Berhad with regards to composition of the Audit Committee. The Committee met according to the schedule of at least once every quarter. The Group Managing Director or Chief Executive Officer, Chief Operating Officer, Independent Non-Executive Directors, External Auditors and members of Senior Management were also invited to attend the meetings. Notice of meeting was given to the Audit Committee members accordingly and minutes of meetings were distributed to the Board members and the Audit Committee Chairman reports to the Board. The Company Secretary, Ms. Lily Yin Kam May is the Secretary to the Audit Committee.

In response to requirement of revised Malaysian Code of Corporate Governance, the Audit Committee has met twice with the external auditor without the presence of the Executive Board members and Senior Management team.

## TERMS OF REFERENCE

### Composition

The members of the Audit Committee shall be appointed by the Board from among the Directors of the Company and comprising no fewer than three (3) Directors, of whom all must be Non-Executive Directors, with majority of them being Independent Directors.

The members of the Audit Committee shall elect among them an independent non-executive Director as Chairman of the Audit Committee.

All members of the Audit Committee should be financially literate and at least one member of the Audit Committee:-

- must be a member of the Malaysian Institute of Accountants; or
- if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) years of working experience and:-
  - i. he must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act 1967; or
  - ii. he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or
- fulfills such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad ("Bursa Malaysia").

No alternate director shall be appointed as a member of the Audit Committee.

In the event of any vacancy in the Audit Committee resulting in the number of members being reduced to below three, the Company must fill the vacancy within three months.

The Board of Directors must review the term of office and performance of the Audit Committee at least once every three (3) years to determine whether the Audit Committee has carried out their duties in accordance with their terms of reference.

# Audit Committee Report (continued)

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## **Meetings**

The Audit Committee meetings shall be conducted at least four (4) times annually, or more frequently as circumstances dictate. The Senior Management's representatives, Internal Audit representatives, and External Auditors' representatives attend the meetings when appropriate. Other Board members and employees may attend meetings upon invitation of the Audit Committee. The Committee should meet with the External Auditors without Board members present at least twice every year.

## **Quorum**

A quorum shall consist of a majority of Audit Committee members who are independent Directors.

## **Secretary**

The Secretary of the Company shall also be the Secretary of the Audit Committee. The Secretary shall be responsible for drawing up the agenda in consultation with the chairperson and shall be responsible for keeping the minutes of the meeting of the Audit Committee, circulating them to committee members and ensuring compliance with regulatory requirements. The agenda together with relevant explanatory papers and documents are circulated to the committee members.

## **Authorities**

The Audit Committee shall, in accordance with a procedure to be determined by the Board of Directors and at the expense of the Company:

- Have explicit authority to investigate any activity within its terms of reference. All employees shall be directed to cooperate as requested by members of the Audit Committee;
- Provided with resources as well as full and unrestricted access to all information which are required to perform its duties;
- Maintain direct communication channels and convene meetings with the Internal Auditors or External Auditors, or both, without the attendance of the Executive Directors and Senior Management team, whenever deemed necessary;
- Obtain, if it considers necessary, external independent professional advice and to invite the attendance of outsiders with relevant experience; and
- Be able to make prompt reports to Bursa Malaysia when the Audit Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in breach of listing requirements.

## **Duties and Responsibilities**

The Chairman of the Audit Committee should engage on a continuous basis with Senior Management, such as the Chairman, Chief Executive Officer, Finance Director, Chief Audit Executive and the External Auditors in order to be kept informed of matters affecting the Company. The duties and responsibilities of the Audit Committee are as follows:

- **Internal Audit Function**
  - i. To review the adequacy of the scope, functions, resources and competency and ensure that it has the necessary authority to carry out its work;
  - ii. To assess internal audit programs, processes, results of the audit and whether or not appropriate action has been taken on the recommendations;
  - iii. To evaluate the appraisal on performance and remuneration of Internal Auditors; and
  - iv. To approve the appointment or termination of Chief Audit Executive and take cognizance of resignation of senior staff members.
- **External Audit**
  - i. To consider the appointment of the External Auditor, the audit fee and any question of resignation or dismissal and make recommendations to the Board;

- ii. To assess the objectivity, independence, competency and effectiveness of the External Auditors;
- iii. To review with the External Auditors, the audit scope and plan, major audit findings raised by the external auditors including finding on their evaluation on the system of accounting control;
- iv. To ensure adequate assistance given to External Auditors without any restrictions on the scope of work or access to required information;
- v. To monitor and approve non-audit services provided by External Auditors.

- **Financial Reporting and Annual Report**

To review the quarterly and year-end financial statements prior to recommendation to the Board, focusing particularly on:-

- i. Changes in accounting policies and practices;
- ii. Significant adjustments arising from the audit;
- iii. Going concern assumptions and unusual events; and
- iv. Compliance with applicable accounting standards and other legal and regulatory requirements.

- **Related Party Transactions**

To monitor and review all related party transactions and conflict of interest situations that may arise within the Group that may raise questions of Management's integrity.

- **Investigation**

Instruct an investigation into any activity or matter within its terms of reference.

- **Other Matters**

To consider such other matters as it considers appropriate or as authorized by the Board.

## **SUMMARY OF ACTIVITIES**

During the financial year ended 31 December 2008, the Audit Committee has carried out its duties as set out in the term of reference. The main activities were as follows:

### **Internal Audit Function**

- Reviewed the annual audit plan to ensure adequate scope and coverage over the activities of the Group, focusing mainly on high risks areas;
- Reviewed the effectiveness of the audit methodology, adequacy of resources and the competency of the Internal Auditors;
- Reviewed internal audit reports and management response to the audit recommendations;
- Monitored Management's progress on implementation of audit recommendations;
- Reviewed the appraisal on performance and remuneration of Internal Auditors.

### **External Audit**

- Reviewed the audit scope, audit strategy, audit plan and Audit Report issued for the financial year;
- Assessed the objectivity and independence of the External Auditors during the year;
- Evaluated the performance and effectiveness of the External Auditors and make recommendations to the Board on their appointment and audit fee.

## **Financial Reporting and Annual Report**

- Reviewed the quarterly unaudited financial results and annual audited financial statements of the Group to ensure that financial reporting and disclosure requirements are in compliance with relevant standards and regulations, prior to recommendation to the Board for approval.

## **Related Party Transactions**

- Reviewed related party transactions within the Group.

## **INTERNAL AUDIT FUNCTION**

The Audit Committee is supported by Group Internal Audit Department (GIAD) which conducts audit for the whole Group except for Malaysian Assurance Alliance Berhad (MAAB) which is supported by its own Internal Audit Department. In ensuring proper Group audit oversight, Chief Audit Executive of MAA Holdings Berhad attends all the Audit Committee meetings of MAAB throughout the year. Total cost incurred for maintaining Internal Audit function was approximately RM1.8 million comprising mainly salaries, benefits, traveling expenses and other overheads.

GIAD assists the Board, Audit Committee and Senior Management in discharging their duties and responsibilities by providing an independent and objective assurance on the adequacy and effectiveness of the internal control system, risks management and governance processes. The annual audit plan was developed based on assessment of the significance of potential risk exposure of respective auditable areas. The audit scope covers operational, financial, compliance and information system control. It seeks to ensure that internal controls embedded in respective business processes are adequate and effective in mitigating associated risks to the level acceptable to the Management. The results of the audit are reported to the Audit Committee on quarterly basis to highlight major audit internal control issues with significant risk exposure and effectiveness of the existing mitigating internal controls. Follow-up audit would also be carried out to report on the progress of implementation of audit recommendations to the Audit Committee.

During the financial year, the following activities were carried out by Internal Audit Function:

- Developed annual audit plan and prioritization of auditable areas based on significance of potential risk exposure to the Group results, input from Senior Management and the Audit Committee, and in cognizance of Group business objectives and goals;
- Executed audit of respective business units and processes based on systematic and disciplined risk based audit approach;
- Carried out ad hoc audit assignments and special reviews as requested by Senior Management and Audit Committee;
- Recommended improvements to existing internal control system and work processes;
- Advised Risk Management Unit on risk factors of various business units with potential impact on Group financial results; and
- Drafted Audit Committee Report and Statement on Internal Control for inclusion into Annual Report for financial year 2008.