

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 2012 are as follows:

Name of Committee	No. of Meetings Attended
Onn Kien Hoe (Chairman, Independent Non-Executive Director) Appointed on 5.9.2012	2/2
Datuk Seri Razman Md Hashim (Member, Independent Non-Executive Director) Resigned on 5.9.2012 and re-appointed on 15.10.2012	4/5
Tan Sri Ahmad bin Mohd Don (Member, Independent Non-Executive Director) Appointed on 5.9.2012	2/2
Dato' Jaffar Indot (Member, Independent Non-Executive Director) Appointed on 5.9.2012	2/2
Dato' Narendrakumar Jasani A/L Chunilal Rugnath (Member, Independent Non-Executive Director) Appointed on 5.9.2012	1/2
Major General Datuk Lai Chung Wah (Rtd) (Chairman, Independent Non-Executive Director) Resigned on 5.9.2012	3/3
Dato' Sri Iskandar Michael bin Abdullah (Member, Independent Non-Executive Director) Resigned on 16.7.2012	2/2
General Dato' Sri Hj Suleiman bin Mahmud (Rtd) (Member, Independent Non-Executive Director) Resigned on 5.9.2012	3/3

The Company has fulfilled the requirements of Section 15.09 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad with regard 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.

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 (1) 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:-
 - he must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act 1967; or
 - 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").

Where the Chairman is unable to attend the meeting, the members shall elect a person among themselves as Chairman. 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 (3) months.

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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.

Meetings

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;
- 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
- Where an Audit Committee is of the view that a matter reported by it to the Board of Directors has not been satisfactorily resolved resulting in a breach of the requirements, the Audit Committee must promptly report such matter to the Bursa Malaysia Securities Berhad.

In discharge of the above functions, the Group Internal Audit has been empowered by the Board to have:

- Necessary resources which are required to perform its duties; and
- Full and unrestricted access to any information and documents relevant to its activities.

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 programmes, processes, results of the audit and whether or not appropriate action has been taken on the recommendations; and
 - iii. To review the Internal Audit reports and to ensure that appropriate and prompt remedial action is taken by Management on lapse in controls or procedures that are identified by Internal Audit.
- **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 qualification, expertise, resources and effectiveness of the External Auditors;
 - iii. To monitor the effectiveness of the External Auditors' performance and their independence and objectives;

- iv. To discuss with the External Auditor the audit plan, evaluation of the system of internal control and the External Audit Report as well as to review the External Auditor Management letter and Management's response;
- v. To review major audit findings raised by the External Auditors and Management's response, including the status of previous audit recommendations;
- vi. To review the assistance given by the Group's officers to the External Auditors and any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information; and
- vii. To review or approve non-audit services provided by the 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; and
- iii. Compliance with applicable accounting standards and other legal and regulatory requirements.

- **Related Party Transaction**

To review related party transactions and conflict of interest situations that may arise within the Group including any transactions, procedures or course of conducts that may raise questions on Management's integrity.

- **Investigation**

Instruct an investigation on any activities or matters within its terms of reference.

- **Other Matters**

Act on other matters as the Committee considers appropriate or as authorised by the Board of Directors.

SUMMARY OF ACTIVITIES

During the financial year ended 31 December 2012, the Audit Committee has carried out its duties as set out in the terms 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's response to the audit recommendations;
- Monitored Management's progress on implementation of audit recommendations; and
- 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; and
- Reviewed major audit findings raised by the External Auditors and Management's response, including the status of previous audit recommendations.

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.

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INTERNAL AUDIT FUNCTION

The Audit Committee is supported by Group Internal Audit Department (“GIAD”) which conducts audit for the whole Group except for MAA Takaful Berhad which is supported by their own Internal Audit Department.

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, risk 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 a quarterly basis to highlight major audit internal control issues with significant risk exposure and effectiveness of the existing mitigating internal controls. An audit follow-up 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 prioritisation of auditable areas based on significance of potential risk exposure to the Group results, input from Senior Management and the Audit Committee, and in cognisance of Group business objectives and goals;
- Executed audit of respective business units and processes based on systematic and disciplined risk based audit approach;
- Ascertained the extent of compliance with established policies and procedures and statutory requirements;
- GIAD also conducted audit on Information Systems of the Group;
- Carried out ad hoc audit assignments and special reviews as requested by Senior Management and Audit Committee;
- Carried out investigation into activities or matters as instructed by the Audit Committee and Senior Management;
- Recommended improvements to existing internal control system and work processes; and
- Preparation of Audit Committee Report and Statement on Internal Control for inclusion into Annual Report for financial year ended 31 December 2012.