

AUDIT COMMITTEE REPORT

MEMBERSHIP AND MEETINGS

The Audit Committee of the Board ("AC") comprises entirely of Independent Non-Executive Directors. The details of members and attendance of meetings held during the financial year ended 31 December 2015 are as follows:

Name of Committee	No. of Meetings Attended
Onn Kien Hoe (Chairman, Independent Non-Executive Director)	6/6
Tan Sri Datuk Seri Razman Md Hashim (Member, Independent Non-Executive Director)	5/6
Tan Sri Ahmad bin Mohd Don (Member, Independent Non-Executive Director)	6/6
Dato' Narendrakumar Jasani A/L Chunilal Rugnath (Member, Independent Non-Executive Director)	5/5

The Company has fulfilled the requirements of Section 15.10 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") with regard to the 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. Notices of meetings were given to the members accordingly and minutes of meetings and the Chairman's report were tabled at the Board.

The AC of MAAG met 6 times during the year and had its private sessions with the external auditors Messrs PricewaterhouseCoopers ("PwC") twice in 2015 which were held on 26 February 2015 and 23 November 2015 to discuss the audit plan, audit findings, financial statements and other matters that require the Board's attention.

TERMS OF REFERENCE

Composition

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

The members of the AC shall elect from among themselves, an Independent Non-Executive Director as Chairman of the AC.

All members of the AC should be financially literate and, at least, one (1) member must be a member of the Malaysian Institute of Accountants; or

- 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
- iii. fulfils such other requirements as prescribed or approved by Bursa Securities.

Where the Chairman is unable to attend a meeting, the members shall elect a person from among themselves as Chairman.

In the event of any vacancy in the AC resulting in the number of members being reduced to below three, the Company must fill the vacancy within three (3) months.

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

Meetings

The Senior Management, Internal Audit, and External Auditors' representatives shall attend the meetings when appropriate. Other Board members and employees may attend meetings upon invitation by the AC. The Committee should meet with the External Auditors without Executive Board members being present at least twice every year.

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Quorum

A quorum shall consist of a majority of AC members who are Independent Directors.

Secretary

The Secretary of the Company shall also be the Secretary of the AC. 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 meetings of the AC, circulating them to committee members and ensuring compliance with regulatory requirements. The agenda together with relevant explanatory papers and documents are to be circulated to the committee members.

Authorities

The AC 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;
- Be 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 invite the attendance of outsiders with relevant experience; and
- Where there is a 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 AC must promptly report such a breach to Bursa Securities.

In discharging the above responsibilities, the AC is assisted by the Group Audit and Risk Department which is empowered by the Board to have:

- The 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 AC 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 AC are as follows:

- **Internal Audit Function**
 - i. To review the adequacy of the scope, functions, resources and competency of the Group Audit and Risk Department and ensure that it has the necessary authority to carry out its work;
 - ii. To assess internal audit programmes, processes, results of audits and whether or not appropriate action has been taken on the recommendations; and
 - iii. To review the Internal Audit reports and ensure that appropriate and prompt remedial action is taken by Management on lapses 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 questions relating to their 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 controls and the External Audit Report as well as to review the External Auditor's Management letter and Management's responses;
 - v. To review major audit findings raised by the External Auditors and Management's responses, 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.

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- **Risk Management**

Review the adequacy and effectiveness of risk management, internal control and governance systems instituted in MAA Group and its subsidiaries.

- **Financial Reporting and Annual Report**

To review the quarterly and year-end financial statements prior to recommending restatements 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 Transactions**

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

- **Investigations**

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 2015, the AC has carried out its duties as set out in the terms of reference. The main activities were as follows:

Internal Audit

- Considered and approved the outsourcing of the internal audit function to an independent external service provider;
- Reviewed the annual audit plan of the service provider to ensure adequate scope and coverage over the activities of the Group, focusing mainly on high risk areas;
- Reviewed the effectiveness of the audit methodology, adequacy of resources and the competency of the outsourced Internal Auditors;
- Reviewed internal audit reports and Management's response to the audit recommendations; and
- Monitored Management's progress in implementing the audit recommendations.

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 for the engagement period although a written assurance was also provided by the external auditors on their independence. This was done during April 2015 after the reporting period, together with the assessment on the reappointment of the auditors;
- Evaluated the performance and effectiveness of the External Auditors and made recommendations to the Board on their appointment and audit fees. The assessment was made following discussions on the range of criterion as specified in the Group's assessment policy for the appointment/reappointment of an external auditor. Amongst the qualifying conditions discussed was the level of knowledge, capabilities, experience and quality that they brought to their work, their ability to provide constructive observations and recommendations in areas which require improvements, highlight implications, and adequacy of the audit scope and the effectiveness of planning and conducting the audit exercise;
- Reviewed major audit findings raised and Management's response, including the status of previous audit recommendations; and
- As there were no new or revised accounting standards adopted during the year, the AC did not undertake any work in this regard in 2015.

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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 recommending the same to the Board for approval.

GROUP AUDIT & RISK

The AC is supported by Group Audit and Risk Department (“GARD”) which collaborates with the outsourced service provider in discharging the internal audit role for the Group and its significant operating subsidiaries. However, MAA Takaful Berhad (“MAAT”), the Group’s biggest subsidiary has its own Internal Audit Department. GARD also oversees the internal audit (“IA”) function of the overseas operations in Columbus Capital Pty Limited (“CCA”) and MAA General Assurance Philippines Inc. (“MAAGAP”).

The service provider who adopts the International Professional Practises Framework has assisted the Board, AC and Senior Management by providing an independent and objective assurance on the adequacy and effectiveness of the internal control system, risk management procedures and governance processes. The audit scope covers operational, financial, compliance and information system controls. The results of the audits are reported to the AC on a quarterly basis to highlight internal control issues with risk exposure and effectiveness of the existing mitigating internal controls. Audit follow-ups are carried out by GARD to report on the progress of implementing the audit recommendations to the AC. The total cost incurred for the outsourced internal audit function for the Malaysian operations of the Group for the financial year ended 31 December 2015 was RM265,000 compared to RM119,600 in FY2014. The increase is attributed to a special audit which was performed on the sales practices for one of MAAT’s single investment product. The cost incurred for the newly outsourced IA function in the Philippines amounted to RM35,300.

During the financial year, the internal audit role was carried out over 3 cycles covering the following subsidiaries:

- MAA Takaful Berhad
- MAA Takaful Berhad – Special Audit
- Pusat Tuisyen Kasturi Sdn Bhd
- MAA International Assurance Ltd

MAA Takaful Berhad – The focus area included the general takaful fund, family takaful fund, outstanding debts and bank reconciliation. This emphasis was derived from the External Auditor’s report as well as on account of findings by the risk management department of the Company. Following the completion of the previous external audit, several issues were noted and discussed during the AC meetings of MAAT as well as the Group. More specifically, they concerned the operations, financial accounting and reporting functions that were assessed as being in need of improvement. While most of them have been resolved through enhancement of the current reporting structure, practices and systems including the infusion of new expertise, and the development of new policies and procedures, there are some ‘high importance’ matters such as that relating to Debtors which remain the subject of ongoing rectification efforts on account of the need due to address legacy issues.

The service provider was also engaged (upon recommendation by the GARD and approval of the AC) by MAAT to perform an internal control assessment on a case of suspected mis-selling of one of its single investment products to a valued client. The findings and recommendations of this audit were reported to the AC of MAAT and the Group and shared with Bank Negara Malaysia (“BNM”). Resulting from the exercise, several operational guidelines and procedures with specific emphasis on the exercise of discretionary authority with regard to the waiver of fees were either further tightened or newly introduced by MAAT to prevent a recurrence. There was no evidence of any premeditated misconduct by any party in the case. The cost incurred for this special audit was RM95,000.

The IA department of MAAT also performed several audits of its own during the year. Apart from instituting a follow-up on the external auditor’s reports, they were also involved in the audit exercise mentioned above. A review of MAAT’s state of preparedness and system readiness for the roll-out of the GST scheme was also undertaken with the assistance of a tax agent. Other assignments included an examination of the Claims Department, internal control assessment of financial reporting procedures, an extent of compliance with BNM’s guidelines on product transparency & disclosure and an audit of anti-money laundering measures.

Pusat Tuisyen Kasturi Sdn Bhd (“PTK”) – The scope of the audit encompassed the operations, finance and procurement activities. No major issues were identified apart from the need to have adequate standard operating procedures (“SOPs”) for some key facets of operations. This has since been rectified either through the advent of new SOPs or by extending those already adopted by the Group so as to ensure consistency of application.

MAA International Assurance Ltd (“MAAIA”) – The internal control assessment for this entity is performed annually to comply with the requirements of the Labuan Financial Services and Securities Act 2010 and Labuan FSA’s Guidelines on Minimum Audit Standards for Internal Auditors of Labuan Insurance Companies and Insurance-Related Companies dated 10 August, 2006. The focus was on finance and operations. However as MAAIA is essentially a holding company with no active business of its own, there were no substantive findings.

MAA General Assurance Philippines Inc. (“MAAGAP”), have also engaged a local service provider to undertake the internal audit role in the company. While it is MAAGAP’s intention to bring this function in-house in 2016, in the interim, GARD currently makes quarterly visits to MAAGAP to review the IA work performed. All findings are tabled at the AC of MAAGAP and GARD escalates it with value adding input to the AC of the Group. The audit by the service provider during the year under review covered HQ operations as well as branches. The scope covered underwriting processes/practises, claims processing, information technology and branch operations. There were no major findings and all issues have since been rectified.

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As for the Sydney based CCA, they too have outsourced the IA role. During the year, the service provider assessed the adequacy of the internal controls of treasury operations in the company and a few minor findings were noted in terms of the need to strengthen the current policies and enhancements to the IT security system. All rectification measures have been implemented. GARD oversees both the IA and RM function of the Company and reports to the Group AC/RMC committees. As the Group is looking into making CCA a subsidiary, an ongoing evaluation is being performed with a view to strengthening this function.

Collectively, a total of 6 audit reports were tabled at the Group AC in 2015 in respect of the above-mentioned entities.

Cumulative financial losses sustained by the Group in 2015 arising from reported/identified operational lapses amounted to RM1.1 million. This amounted to a negligible 0.2% of Group turnover for the same period. A minor amount was recovered within the year itself. Corrective actions included the dismissal of one (1) erring staff.