AUDIT COMMITTEE REPORT

COMPOSITION AND MEETINGS

The Audit Committee ("AC") comprises of four members, all of whom are Independent Non-Executive Directors. This meets the requirements of paragraph 15.09(1) (a) and (b) of the Bursa Malaysia Securities Berhad ("Bursa Securities") Listing Requirements.

The details of members and their respective attendance record at meetings held during the financial year ended 31 December 2016 are as follows:

Name of Committee	No. of Meetings Attended
Onn Kien Hoe *(Chairman, Independent Non-Executive Director)*	5/5
Tan Sri Datuk Seri Razman Md Hashim *(Member, Independent Non-Executive Director)*	5/5
Tan Sri Ahmad bin Mohd Don *(Member, Independent Non-Executive Director)*	5/5
Dato' Narendrakumar Jasani A/L Chunilal Rugnath *(Member, Independent Non-Executive Director)*	4/5

The Chairman of the AC, Mr Onn Kien Hoe is a member of the Association of Chartered Certified Accountants, The Malaysian Institute of Accountants and Malaysian Institute of Certified Public Accountants. The AC, therefore, meets the requirement of paragraph 15.09 (1) (c) of the Bursa Securities Listing Requirements which stipulates that, at least one (1) member of the AC must be a qualified accountant.

The Committee met according to the schedule of at least once every quarter. The Chief Executive Officer/Group Managing Director ("CEO/GMD") and Group Chief Operating Officer ("GCOO") were invited to all AC meetings to facilitate direct communications as well as to provide clarification on audit issues and the Group's operations. The Group Audit & Risk Department ("GARD") and members of Senior Management were also present at these meetings. The Committee members were provided with the agenda and relevant papers 5 days before each meeting. Minutes of the AC meetings were distributed to the Board for notation and the Chairman of the AC reported on the key issues discussed, to the Board.

TERMS OF REFERENCE

The terms of reference of the AC can be found on the Group's website.

SUMMARY OF ACTIVITIES

During the financial year ended 31 December 2016, the AC carried out its duties as set out in the terms of reference. The principal activities were as follows:

Financial Reporting and Annual Report

The AC reviewed the following Group financial statements and made recommendations to the Board for approval of the same:

Date of AC Meetings	Quarterly financial results/Financial statements reviewed
25 February 2016	Unaudited fourth quarter financial results for the period ended 31 December 2015
12 April 2016	Audited Financial Statements for the year ended 31 December 2015
25 May 2016	Unaudited first quarter financial results for the period ended 31 March 2016
25 August 2016	Unaudited second quarter financial results for the period ended 30 June 2016
24 November 2016	Unaudited third quarter financial results for the period ended 30 September 2016

The review of the unaudited quarterly financial results is to ensure the disclosures are in compliance with Malaysian Financial Reporting Standards and applicable disclosure provisions of the Bursa Securities Listing Requirements.

The AC review of the audited financial statements of the Company and the Group for the financial year ended 31 December 2015 encompassed the financial position and performance for the financial year and ensured that it complied with all disclosure and regulatory requirements prior to recommending the statements to the Board for approval.

Significant matters that were highlighted by the external auditors in the financial statements and noteworthy judgements made by the management were also reviewed and discussed during the AC meetings.

Some of the significant matters that were discussed during the financial year were in relation to PN17 status, disposal of MAA Takaful Berhad (“MAA Takaful”) (now known as Zurich Takaful Malaysia Berhad) and subscription of new ordinary shares in MAA General Assurance Philippines, Inc. (“MAAGAP”). The issue on PN17 can be found in the Independent Auditor’s report on page 74 to 77 of this Annual Report and under the ‘Key Audit Matters (KAM)’ section of this report.

The matter relating to the disposal of MAA Takaful considered the appropriateness of accounting treatment proposed by management to account for the transaction. Management sought the concurrence from both external auditors and the Board for the calculation of disposal gain arising and the treatment of deferred consideration on disposal of the Company’s interest in MAA Takaful. Both parties concurred and no exceptions were noted in this matter.

The Company’s subsidiary, MAA International Assurance Ltd (“MAAIA”) subscribed for additional 300,000 new ordinary shares in MAAGAP prior to year end. The subscription of which would dilute existing shareholders, which will result MAAGAP to become a 70% owned subsidiary. The Group at year end has continued to account for MAAGAP as an associate despite the subscription to new ordinary shares prior to year end reflecting that said shares have yet to be issued pending necessary regulatory approval in the Philippines. The Board and the external auditor consider the appropriateness of the same, both parties concurred and no exceptions were noted in this matter.

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 them on their independence. This was done in April 2016 after the reporting period, together with the assessment on the reappointment of the auditors;
- The AC of MAAG met 5 times during the financial year and had its private sessions with the external auditors twice i.e. on 25 February 2016 and 24 November 2016 to discuss the audit plan, audit findings, financial statements and other matters that required the Board’s attention.
- 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 based on the criterion specified in the Group’s assessment policy for the appointment/ reappointment of an external auditor. Amongst the qualifying conditions applied during the said exercise was the level of knowledge the auditors brought to the assignment, capabilities, experience, output quality, their ability to provide constructive observations and recommendations in areas which required improvement and lastly, the effectiveness in planning and conducting the audit exercise.
- Reviewed major audit findings raised and management’s response, including the implementation status of previous audit recommendations.

Key Audit Matters (KAM)

The International Standards on Auditing for KAM (ISA701) comes into effect for audit reports and financial statements for financial year ending on or after 31 December 2016. This new standard requires a section to be included in the Independent Auditor’s report to highlight those matters that, in the Auditor’s professional judgement, were deemed most significant during the course of the audit.

As a preparatory measure to comply with this new standard, the AC proactively engaged in active discussions with the external auditors for a better understanding of the Group’s role in providing the required information needs in order to ensure compliance and a smooth transition process. The AC also ensured that mechanisms were put in place especially with regard to mutually agreed timelines so that full co-operation was extended by both the operating associates in the Philippines and Australia (who have a different set of external auditors) to assist PricewaterhouseCoopers (“PwC”) in completing this assessment in a timely and effective manner.

Post exercise, the external auditors only identified one (1) significant issue, namely the Company’s PN17 status and compliance with the Bursa Securities Listing Requirements.

In addressing the expressed concern over the PN17 status, the external auditors were informed that, notwithstanding the lodgement of the application(s) to Bursa Securities seeking an extension of time for the submission of the regularisation plan, management and the Board have and are continually evaluating business propositions in the quest for a new core business. In this regard, the external auditors were also provided with documentary evidence of the thirty (30) such propositions that had been assessed to-date. This explanation and clarification was accepted by the external auditors.

The external auditors had also considered the impact of the PN17 status to the Company's financial position and concurred with the management's assessment that there were no adverse implications on the going concern status of the Company and that, the basis of preparation of the financial statements on a going concern basis continues to be appropriate.

Internal Audit

- Reviewed the annual audit plan for adequacy of scope and coverage of the key activities of the Group. Audit areas were discussed together with the audit procedures. Risks affecting the audit areas determined the frequency of audit coverage. The annual audit plan was approved for adoption following this review;
- Reviewed the internal audit reports, audit recommendations and management's responses to the same and actions taken to improve the system of internal controls and procedures. Internal audit reports during the financial year covered both the functions of the Company and its subsidiaries;
- Monitored the implementation of the audit recommendations to ensure all key risks and controls have been addressed;
- Reviewed the Statement on Risk Management and Internal Control to confirm that it is consistent with their understanding of the state of internal controls of the Group and recommended the same to the Board for inclusion in the Annual Report.

GROUP AUDIT & RISK

The AC is supported by GARD which collaborates with the outsourced service providers in discharging the internal audit role for the Company and its principal operating subsidiaries.

The appointed service provider for domestic operations who applies the International Professional Practises Framework assisted the Board, AC and Senior Management by providing an independent and objective assurance/assessment 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 were reported to the AC on a quarterly basis to highlight control issues with risk exposures and effectiveness of the existing mitigating measures. Audit follow-ups were instituted 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 2016 was RM135,000 compared to RM265,000 in 2015. The higher cost in the prior year was attributed to a special audit which was performed on one of the subsidiary companies (which has since been divested).

During the financial year, the internal audit works performed by the external service provider was carried out over 3 cycles covering the following entities:

- MAA Group Berhad;
- MAA Corporation Sdn Bhd;
- Kasturi Academia Sdn Bhd (formerly known as Pusat Tuisyen Kasturi Sdn Bhd); and
- MAA International Assurance Ltd

One of the tests that was performed across the entire domestic operations of the Group during the internal audit was on the adequacy and effectiveness of the application and administration of the Goods and Service Tax ("GST"). All internal controls revolving around the preparation, budget estimations, calculations and accounting treatment of GST were assessed. No issues of concern were noted and the Group's application of GST was concluded to be satisfactory.

Another area that was examined during the internal audit was the finance portfolio. In this assignment, billings and receivables management, financial reporting and accounting, banking, budgetary control and cash management practises were evaluated. All policies and procedures were thoroughly assessed for adequacy and effectiveness. There were two (2) ensuing observations i.e. the need to formalise a strategic business plan and improving budgeting process.

In respect of the budgeting process, management were recommended to improve the timelines in budget development and approval while to also enhance budget monitoring. Actions taken in addressing this observation was the enhancement of the Budget SOP.

With regard to the former, management explained business restrictions imposed under the Financial Services Act 2013 ("FSA"), pre-occupation with the divestment of non-core businesses and funding constrains precluded the Group from making any sizeable acquisitions. In these uncertain and difficult circumstances, it was difficult to propagate a longer term Vision that a strategic plan would need to embody.

These issues have now been addressed via the sale of MAA Cards Sdn Bhd and MAA Takaful (which also meant the Group had now exited the financial sector) that increased the Company's investible funds and has further enhanced its prospects for venturing or acquiring a new core business(es). Hence, the consideration of the diverse range of investment opportunities alluded to earlier. Once these acquisitions and entry into new business lines see fruition, management is committed to drawing up a plan that would chart the longer term direction of the Group.

An assessment of the internal controls relating to Human Resource was also performed and some of the noted observations were the need to improve/establish policies and procedures on recruitment, resignation, staff training, staff claims, staff misconduct proceedings and staff performance evaluation, to formalise a succession plan and to further improve the performance evaluation process. Group Human Resource has initiated an exercise to comply with the recommendations.

As for MAAGAP, with the Group's strategic decision on converting it into a subsidiary, there arose a greater need to exercise proper supervision and to ensure that the internal controls in place were consistent with Group practises. Towards this end and as a preparatory measure, the Internal Audit ("IA") function was brought in-house in July 2016. The objective was to provide reasonable assurance to both the AC as well as the Group on the two mentioned concerns.

Reporting directly to the AC of MAAGAP and supervised by GARD, the onsite presence of the internal auditors created a heightened awareness of the oversight function at all levels of the organization, facilitated speedier detection of policy/guidelines breaches and more frequent assessment of key operational areas. For example, where under the previous regime, only two (2) branches were audited per year, the provision of dedicated IA resources now allows for each branch to be audited twice per year.

The newly established IA Department tabled its inaugural report to the AC of MAAGAP on 21 July 2016. Some of the issues that were common to most of the branches were in relation to timely submission of monthly branch reports to Head office, absence of asset tagging and compliance to SOPs. These concerns have since been addressed.

An issue that needed more attention was with regard to branch managers approving underwriting amounts in excess of their respective approved limits. Although the incidence and amounts involved was deemed immaterial, however as risk mitigation measure an instruction was issued to all branches to strictly comply with the policies and procedures governing this matter with the caution that future lapses could possibly result in disciplinary action.

As for Columbus Capital Pty Limited ("CCA"), an associated company in Australia, they have outsourced the IA role. During the financial year, the service provider assessed the adequacy of the internal controls of security packets at the custodians' offices. They noted a few minor shortcomings in terms of the need to enhance the management of the physical documents. All rectification measures have been implemented.

Collectively, a total of 7 audit reports were tabled at the Group AC in 2016 in respect of the above-mentioned entities. There were no financial losses sustained by the Group in 2016 arising from identified operational lapses as compared to the previous year which amounted to RM1.1 million.