

# Report of the Audit and Compliance Committee

The Board is pleased to issue the following report of the Audit and Compliance Committee and its activities during the financial year ended 31 December 2014.

## COMPOSITION OF AUDIT AND COMPLIANCE COMMITTEE AND MEETINGS

The Audit and Compliance Committee comprises three (3) members, all of whom are Non-Executive Directors.

A total of eleven (11) meetings of the Audit and Compliance Committee were held during the year. The status of directorship and attendance record of each of the members during the financial year, are as follows:-

Name of Directors and Status	No. of Meetings Attended
Khalid bin Sufat Chairman, Senior Independent Non-Executive Director	10/11
Datin Paduka Kartini binti Hj. Abdul Manaf Member, Non-Independent Non-Executive Director	11/11
Datuk Karownakaran @ Karunakaran A/L Ramasamy Member, Independent Non-Executive Director (Resigned w.e.f. 31 December 2014)	10/11

Following the resignation of Datuk Karownakaran @ Karunakaran A/L Ramasamy, the Board has approved the appointment of Datin Paduka Siti Sa'diah binti Sh Bakir (Independent Non-Executive Director) as a member of the Committee on 1 January 2015 to replace Datuk Karownakaran @ Karunakaran A/L Ramasamy.

## TERMS OF REFERENCE

In fulfilling its duties and objectives, the Audit and Compliance Committee is guided by the Terms of Reference as follows:-

### Membership

- (i) The Audit and Compliance Committee shall be appointed by the Board of Directors and shall consist of a minimum of three (3) Non-Executive Directors, a majority of whom are Independent;
- (ii) The Chairman of the Audit and Compliance Committee shall be approved by the Board and shall be an Independent Non-Executive Director;
- (iii) At least one member of the Committee:-
  - must be a member of the Malaysian Institute of Accountants (MIA); or
  - if not a member of MIA:-
    - he must have at least three years of working experience; and
    - he must have passed the examination specified in Part I of the 1st Schedule of the Accountants Act 1967; or
    - he must be a member of one of the Association of Accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or
  - fulfils such other requirements as prescribed or approved by the Exchange.

### Meetings

- (i) Meetings shall be held no less than four (4) times a year;
- (ii) The quorum shall be two (2) members, of which the majority of members present must be independent directors;
- (iii) The Group Managing Director, the Group Finance Director and the Group Internal Auditor shall normally be invited to attend the meeting;
- (iv) Any other Board members and any other representatives as deemed necessary shall be invited to attend the meeting;
- (v) With regards to integrity matters, care should be taken to minimise the risk of any conflict of interest that might be seen to give rise to an unacceptable influence;
- (vi) The Committee shall meet with the external auditors, the internal auditors or both, in the absence of other directors or employees of the listed issuer at least twice a year or whenever deemed necessary; and
- (vii) The Secretary to the Committee shall be the Group Company Secretary.

### Authority

The Audit and Compliance Committee is authorised by the Board:-

- (i) To seek any information relevant to its activities from employees of the Group;
- (ii) To engage the necessary resources required to carry out its duties and to obtain independent professional advice it considers necessary; and
- (iii) To have full and unlimited access to any information and documents pertaining to the Group.

### RESPONSIBILITIES

#### (a) Financial

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

- (i) Any change in accounting policies and practices;
- (ii) Significant adjustments arising from the audit;
- (iii) The going concern assumption; and
- (iv) Compliance with accounting standards and other legal requirements.

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### (b) External Audit

To carry out the following, in relation to the external audit function of the Group:-

- (i) To consider and recommend to the Board the nomination, appointment and termination of the External Auditors, as well as the audit fee;
- (ii) To discuss with the External Auditors before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- (iii) To discuss problems and reservations arising from the interim and final audits, and any matter the External Auditors may wish to discuss (in the absence of management where necessary); and
- (iv) To review the External Auditors management letter and management's response.

### (c) Internal Audit

To carry out the following, in relation to the internal audit function of the Group:-

- (i) Review and approve the annual audit plan;
- (ii) Review the adequacy of the scope, functions, competency and resources of internal audit functions and that it has the necessary authority to carry out its work;
- (iii) Review and endorse the audit charter which outlines the purpose, authority and responsibility of the Group's internal audit function;
- (iv) Review the internal audit plans and results of these activities and where necessary, ensure that appropriate actions are taken on the recommendations of these functions;
- (v) Review the annual budget for the Group's internal audit function;
- (vi) Review any appraisal on performance as well as competency of the Group's internal audit function;
- (vii) Approve any appointment or termination of senior staff members of the Group's internal audit function; and
- (viii) Take cognisance of resignations of staff/members of the Group's internal audit function and provide the resigning staff/members an opportunity to submit his reasons for resigning.

### (d) Integrity

To carry out the following, in relation to the integrity function of the Group:-

- (i) To review annually:-
  - (a) The Group's business ethics and integrity policy and to make recommendations to the Board thereon; and
  - (b) The Group's business ethics and integrity policies, processes and practices.

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- (ii) To monitor the Group's compliance with existing legislations such as the Malaysian Anti-Corruption Commission Act 2009, Competition Act 2010, Whistle Blower Protection Act 2010, Witness Protection Act 2009 and Personal Data Protection Act 2010;
- (iii) To ensure that the Group's communication and training programmes on ethics and business integrity are effective in reinforcing ethical values and further enhance good corporate governance;
- (iv) To monitor the responses to the Group's whistleblowing line and other mechanisms used to raise concerns, and to oversee actions following breaches of the ethics and business integrity policy or allegations of misconduct;
- (v) To review the major findings of internal investigations and Management's response and recommend the rectification needed;
- (vi) To review the policies and practices of the Group in respect of business ethics and integrity in relation to the commencement of operations in any new country or territory in which the Group has not previously operated;
- (vii) To review and recommend to the Board, compliance with particular best practice guidance or codes in relation to business ethics, integrity and compliance.

### (e) Related Party Transactions

- (i) To review any related-party transactions that may arise within the Group;
- (ii) To review and recommend to the Board the Circular to Shareholders on Recurrent Related Party Transactions ("RRPTs") and new RRPTs.

### (f) Other Matters

To consider other matters as defined by the Board.

### ACTIVITIES DURING THE FINANCIAL YEAR

- (i) Reviewed and recommended to the Board, the amendments to the Terms of Reference of the Audit and Compliance Committee;
- (ii) Reviewed and approved the appointment of Group Internal Auditor;
- (iii) Reviewed and approved the annual internal and external audit plans of the Group;
- (iv) Reviewed the scorecard and status report of internal audit activities of the Group for the year to ensure that all planned activities were properly carried out;
- (v) Reviewed the internal audit and special investigation reports prepared by the Group Internal Auditor and monitored the status of corrective actions taken by the Management to ensure all audit issues are addressed;
- (vi) Reviewed the Management letters and reports of the external auditors;
- (vii) Evaluated the performance of the External Auditors and made recommendations to the Board on their re-appointment and audit fees;

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- (viii) Reviewed the Group's financial performance, quarterly announcement to Bursa Malaysia, draft audited accounts and Annual Reports of the Group, prior to submission to the Board for consideration and approval;
- (ix) Reviewed and recommended to the Board dividends to be declared to the shareholders of the Company;
- (x) Reviewed the recurrent and new related party transactions entered into by the Group and the disclosure of such transactions in the annual report and circular on recurrent related party transactions;
- (xi) Reviewed, monitored and ensured that processes were in place for the implementation of Goods & Services Tax ("GST") within the Group;
- (xii) Reviewed and monitored the implementation of the SAP system within the Group;
- (xiii) Reviewed the proposed disposal of companies within the Group including the appointment of the various consultants in relation thereto;
- (xiv) Reviewed and recommend to the Board the appeal to Tax Court of Indonesia against the objection decisions of the Director General of Tax on several tax adjustments/corrections made by the tax auditor;
- (xv) Ensured the recommended principles and best practices of the Malaysian Code on Corporate Governance are implemented throughout the Group;
- (xvi) Reviewed and recommended to the Board the CCM Corporate Integrity System; and
- (xvii) Reviewed and approved the implementations of Corporate Integrity programme for the Group.

### STATEMENT ON INTERNAL AUDIT FUNCTIONS

The Audit and Compliance Committee is supported by an in-house Group's internal audit function, which reports functionally to the Committee.

The Group's internal audit function's principal responsibility is to undertake regular and systematic audit assessments on the operations of the CCM Group of Companies so as to provide reasonable assurance that such internal control systems and governance processes are adequate and continue to operate effectively and efficiently in achieving the objectives of the Group. The Group's internal audit function also provides an independent, objective assurance and consulting services designed to add value and improve the Company's operations.

Adopting a risk-based approach after evaluation and assessment of risks at Company and Group level, the Group's internal audit function formulated an Annual Audit Plan, which was approved by the Audit and Compliance Committee. The scope of audit covered all business units and operations of the Company and its subsidiaries.

The Internal Audit Reports, which included issues and action plans, were presented to and discussed with the Management. The Group's internal audit function subsequently monitored the implementation of the agreed action plans to ensure full compliance. The reports together with the follow-up action plans and implementation status were presented to the Audit and Compliance Committee for their deliberation and subsequent approval.

The total expenditure incurred for the Group's internal audit function for the financial year, which amongst others included departmental expenditures such as office running expenses, training expenses, travelling expenses, staff remuneration, etc. was approximately RM803,000.

### STATEMENT ON GROUP INTEGRITY FUNCTIONS

In 2014, the Group Internal Auditor's role had broadened in scope following the establishment of the Group Integrity Unit, which is placed in the Group Internal Audit Department. The department's name is subsequently changed to Group Integrity & Assurance Department.

On integrity matters, the Group Integrity Unit reports to the Integrity Committee, which is chaired by Datin Paduka Kartini binti Hj. Abdul Manaf (Non-Independent Non-Executive Director) and in turn, reports to the Audit and Compliance Committee.

The Group Integrity Unit is responsible for, amongst others, conducting programmes to further inculcate and enhance integrity in the Group's culture, managing the CCM Whistleblowing hotline, enhancing business practices to further improve governance and confirming information/complaints received via the hotline.

The key events/activities in 2014 were as follows:-

- (i) One staff was sent to attend the six-month Certified Integrity Officer ("CeIO") programme, which was conducted at the Malaysian Anti-Corruption Academy. The programme was aimed at equipping the Integrity Officers with the necessary knowledge in planning, implementing and monitoring the organisation's integrity programmes;
- (ii) Signing of the Corporate Integrity Pledge ("CIP") between CCM and the Malaysian Anti-Corruption Commission. This marked the Company's commitment towards upholding the Anti-Corruption Principles for Corporations in Malaysia;
- (iii) A Memorandum of Understanding on being a "Rakan Integriti" with Malaysian Institute of Integrity ("IIM") was signed to effectively implement integrity programmes such as enhancing corporate governance, business ethics and corporate responsibility;
- (iv) Board of Directors and Senior Management Forum on Corporate Integrity was conducted in April 2014;
- (v) Integrity awareness trainings for staff from all levels were conducted in the second half of 2014 and were successfully completed in December 2014;
- (vi) An annual Integrity Day was held in November 2014 and the first quarterly Integrity Bulletin was launched during the Integrity Day;
- (vii) Revision of policies such as Gift and Sponsorship Policy, Conflict of Interest Policy and the inclusion of the Anti-Bribery and Corruption Policy into the Code of Conduct.