

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 2015.

COMPOSITION OF AUDIT AND COMPLIANCE COMMITTEE AND MEETINGS

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

A total of eight (8) 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, were as follows:-

Name of Directors and Status	No. of Meetings Attended
Khalid bin Sufat Chairman, Senior Independent Non-Executive Director	7/8
Datin Paduka Kartini binti Hj. Abdul Manaf Member, Non-Independent Non-Executive Director	8/8
Tan Sri Siti Sa'diah binti Sh. Bakir Member, Independent Non-Executive Director	8/8

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 Company Secretary or her representative.

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

- (i) To consider and recommend to the Board the nomination, appointment and termination of External Auditors as well as the audit fee;
- (ii) To discuss with the external auditor 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 review the quarterly and year-end financial statements of the Board, focusing particularly on:-
 - Any change in accounting policies and practices;
 - Significant adjustments arising from the audit;
 - The going concern assumption; and
 - Compliance with accounting standards and other legal requirements.

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- (iv) To discuss problems and reservations arising from the interim and final audits, and any matter the external auditor may wish to discuss (in the absence of management where necessary);
- (v) To review the External Auditor's management letter and management's response;
- (vi) To carry out the following, in relation to the internal audit function of the Group:-
- Review and approve the annual audit plan;
 - 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;
 - Review and endorse the audit charter which outlines the purpose, authority and responsibility of the Group Integrity & Assurance;
 - 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;
 - Review the annual budget for Group Integrity and Assurance;
 - Review any appraisal on performance as well as competency of the Group Integrity and Assurance functions;
 - Approve any appointment or termination of senior staff members of the Group Integrity and Assurance functions; and
 - Take cognisance of resignations of staff/members of the Group Integrity and Assurance function and provide the resigning staff/members an opportunity to submit his reasons for resigning.
- (vii) To carry out the following, in relation to the integrity function of the Group:-
- To review annually:-
 - a. The Group's business ethics and integrity policies and to make recommendations to the Board thereon; and
 - b. The Group's business ethics and integrity, processes and practices.
 - 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;
 - To ensure that the Group's communication and training programmes on ethics and business integrity is effective in reinforcing ethical values and further enhance good corporate governance;
 - 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;
 - To review the major findings of internal investigations and management's response and recommend the rectification needed;
 - To review the policies and practice 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; and
 - To review and recommend to the Board, compliance with particular best practice guidance or codes in relation to business ethics, integrity and compliance.

- (viii) To review any related-party transactions that may arise within the Group; and
- (ix) To consider other matters as defined by the Board.

ACTIVITIES DURING THE FINANCIAL YEAR

- (i) Reviewed and approved the internal audit plan of the Group;
- (ii) 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;
- (iii) 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;
- (iv) Reviewed the management letters, reports and fees of the external auditors;
- (v) Evaluated the performance of the External Auditors and made recommendations to the Board on their re-appointment and audit fees;
- (vi) Reviewed the Group's financial performance, quarterly announcement to Bursa Malaysia, draft audited accounts and annual reports of the Group, prior to the submission to the Board for consideration and approval;
- (vii) Reviewed the 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;
- (viii) Reviewed and recommended to the Board dividends to be declared to the shareholders of the Company;
- (ix) Reviewed and recommended to the Board, the revision to the Group's Limits of Authority;
- (x) Reviewed and recommended to the Board, the amendments to the Terms of Reference of the Audit and Compliance Committee;
- (xi) Ensured the recommended principles and best practices of the Malaysian Code on Corporate Governance are implemented throughout the Group;
- (xii) Reviewed and recommended to the Board, the Management Services Agreement between Chemical Company of Malaysia Berhad and all its subsidiaries;
- (xiii) Reviewed and updated the Board, the investigations and demands by authorities/regulators in respect of the Group's operations; and
- (xiv) Reviewed and recommended to the Board, bad debts and fixed assets write-off.

REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE (CONT'D)

STATEMENT ON INTERNAL AUDIT FUNCTION

The Audit and Compliance Committee is supported by an in-house internal audit (assurance) function, which is part of the Group Integrity & Assurance Department. The internal audit function provides an independent, objective assurance and consulting services designed to add value and improve the Company's operations.

The internal audit function's purpose, authority and responsibilities are stated in the Internal Audit Charter, which is approved by the Audit and Compliance Committee. The Charter also specified the positioning of the internal audit function that reports directly to the Audit and Compliance Committee, to promote independence and enable it to maintain objectivity to render unbiased judgments. The principal responsibility of the internal audit function 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.

Adopting a risk-based approach after evaluation and assessment of risks at Company and Group level, the Group Integrity and Assurance Department formulated an Annual Audit Plan, which was reviewed and approved by the Audit and Compliance Committee. The scope of the Annual Audit Plan covers all business units and operations of the Company and its subsidiaries.

Group Integrity and Assurance adopts the COSO Internal Control Framework in conducting the audit assignments, which covered five (5) elements of internal controls, namely Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. In 2015, the areas under review include Sales, Procurement, Plant Operations, Finance, IT systems, Governance as well as operations in East Malaysia and regional offices.

The Internal Audit reports, which included issues and action plans, were presented to and discussed with the Management. Group Integrity and Assurance subsequently monitored the implementation of the agreed action plans to ensure satisfactory closure of audit issues. The reports together with follow-up action plans and implementation status were then submitted and presented to the Audit and Compliance Committee for their deliberation and subsequent approval.

The total expenditure incurred for Group Integrity and Assurance for the financial year, which amongst others included departmental expenditures such as office running expenses, training expenses, travelling expenses, staff remuneration, etc. is approximately RM1.35 million.

STATEMENT ON GROUP INTEGRITY FUNCTION

On integrity matters, Group Integrity and Assurance 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 and Assurance 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 2015 were as follows:-

- (i) Integrity empowerment trainings were conducted for new staff that joined the CCM Group of Companies throughout the year;
- (ii) Briefings on Integrity Pact were held with suppliers of the CCM Group of Companies in the first quarter of 2015;
- (iii) The Company completed the Corporate Integrity Assessment Questionnaire (“CIAQ”) exercise to benchmark against other Government-Linked Companies and Government-Owned Companies;
- (iv) Board of Directors and Senior Management integrity training titled, ‘Standing Tall in Challenging Times’ was conducted in October 2015; and
- (v) The annual Integrity Day was held on 17 December 2015 and the online gift register was launched during the Integrity Day.