



# 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 2017.

## Composition of Audit and Compliance Committee and Meetings

The Audit and Compliance Committee comprises four (4) members, all of whom are Non-Executive Directors.

Following the corporate exercise undertaken by the Group, Tan Sri Datin Paduka Siti Sa'diah binti Sh Bakir and Datuk Nik Moustpha bin Haji Nik Hassan had resigned from the Committee on 28 December 2017. Subsequently, Dato' Seri Ir. Dr Zaini bin Ujang was appointed as a Member of the Committee on even date. On 9 March 2018, the Company has appointed Dato' Wan Mohd Fadzmi bin Che Wan Othman Fadzilah as a new member on the Audit and Compliance Committee.

For 2017, a total of eleven (11) meetings of the Audit and Compliance Committee were held. 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 <b>Chairman, Senior Independent Non-Executive Director</b>	11/11
Datin Paduka Kartini binti Hj. Abdul Manaf <b>Member, Non-Independent Non-Executive Director</b>	10/11
Tan Sri Datin Paduka Siti Sa'diah binti Sh. Bakir <b>Member, Independent Non-Executive Director</b> <i>(Resigned w.e.f. 28 December 2017)</i>	10/11
Datuk Nik Moustpha Bin Hj Nik Hassan <b>Member, Independent Non-Executive Director</b> <i>(Resigned w.e.f. 28 December 2017)</i>	11/11
Dato' Seri Ir. Dr. Zaini bin Ujang <b>Member, Independent Non-Executive Director</b> <i>(Appointed w.e.f. 28 December 2017)</i>	0/0
Dato' Wan Mohd Fadzmi bin Che Wan Othman Fadzilah <b>Member, Independent Non-Executive Director</b> <i>(Appointed w.e.f. 9 March 2018)</i>	0/0



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## SUMMARY OF WORK DONE DURING THE FINANCIAL YEAR

### External Audit

- i) Reviewed the external auditor's audit plan and engagement strategy for the financial year ended 31 December 2017, covering the audit focus area, which also include a review on the IT systems, audit materiality and methodology.
- ii) Reviewed the external auditor's report for the financial year ended 31 December 2016, including matters relating to adjustments arising from the external audit review and adequacy of disclosures, prior to making recommendations to the Board for approval.
- iii) Deliberated on the observations highlighted by the external auditors, and the respective management action plans and status updates.
- iv) Held private meetings and discussions with the external auditors to allow for discussions on matters of concern.
- v) Evaluated the performance and independence of the external auditors and made recommendations to the Board on their re-appointment and audit fees.
- vi) Reviewed the quarterly reports in respect of the results to ensure compliance to the Malaysian Financial Reporting Standards and regulatory requirements and recommended to the Board for subsequent release to Bursa Malaysia.
- vii) Reviewed the notes to the draft announcements of the audited and unaudited financial statements to Bursa Malaysia, to ensure compliance to the regulatory requirements.
- viii) 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; and
- ix) Reviewed the Directors' Statement on Risk Management and Internal Control (SORMIC) for inclusion in the 2017 Annual Report. The SORMIC was supported by the Annual Assurance Statement on Risk Management and Internal Controls, which were signed off by the Group Managing Director.

## Internal Audit

- i) Reviewed the scorecard and status reports of internal audit activities of the Group, on a quarterly basis, to ensure that all planned activities were properly carried out.
- ii) Deliberated on the internal audit reports prepared by the Group Internal Auditor, as well as the agreed Management's action plans and deadlines for implementation. Where necessary, instructed additional actions to be taken by Management in addressing the audit issues.
- iii) Monitored the status of corrective actions taken by Management, on a quarterly basis, to ensure that all audit issues are adequately addressed within the agreed timeline.
- iv) Monitored the status of legal actions taken by the Company on matters relating to debtors, sales tax, employee Industrial Relations matters and major insurance claims.
- v) Ensured the recommended principles and best practices of the Malaysian Code on Corporate Governance are implemented throughout the Group.
- vi) Reviewed and recommended to the Board on special projects/ corporate exercises entered into with Related Party(ies) so as to ensure that the terms are not more favourable to the Related Party(ies) than those generally available to the public and not to the detriment of the minority shareholders' and that they are conducted at arms' length and on normal commercial terms.
- vii) Held private meetings and discussions with the Group Internal Auditor on significant audit and internal control matters.
- viii) Deliberated on the structure of the internal audit function and the dissolution of the Integrity Committee following the demerger of CCMD from CCM.
- ix) Reviewed and approved the 2018 Annual Internal Audit Plan to ensure adequate coverage of the Group's operations.
- x) Reviewed the 2018 budget and Key Performance Indicators of the Group Integrity and Assurance Department; and
- xi) Reviewed and updated the Board on the revised Internal Audit Charter and Management Control Policy.

## Integrity

- i) Reviewed and updated the Board on the 2017- 2019 Organisation Integrity Plan; and
- ii) Deliberated on the special investigation reports prepared by the Group Internal Auditor and provided feedback on the actions taken by the Management on the issues at hand. The progress of the significant cases was monitored until their closure.



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## STATEMENT ON INTERNAL AUDIT FUNCTION

The Group Integrity & Assurance Department, which conducted all internal audit assignments within the Group, supports the Audit and Compliance Committee by providing an independent, objective assurance and consulting services designed to add value and improve the company's operations.

### (i) Reporting Line

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 judgements. 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.

### (ii) Audit Planning and Work Done

Adopting a risk-based approach after evaluation and assessment of risks at Company and Group level, the Group Integrity & 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 & Assurance Department adopts the COSO Internal Control Framework in conducting the audit assignments, which covered 5 elements of internal controls, namely:

- Control Environment,
- Risk Assessment,
- Control Activities,
- Information and Communication, and
- Monitoring.

In 2017, the areas under review included:

- IT systems,
- Human Resource,
- Sales and Marketing,
- Procurement,
- Project Management,
- Warehouse and Inventory Management,
- Distribution,
- Governance,
- Operations at the regional offices.

The Internal Audit reports, which included issues and action plans, were presented to and discussed with the Management. Group Integrity & Assurance Department 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.

In 2017, Group Integrity & Assurance Department together with the Group Risk Department conducted Risk Control Self-Assessment Workshops throughout the Group to enhance the knowledge and understanding amongst the employee on the importance of managing risks by implementing the relevant controls.

(iii) Internal Audit Resources and Cost

All audit assignments conducted in 2017 was carried out by nine (9) auditors. Following the demerger of the CCMD from the CCM Group of Companies on 28 December 2017, the number of auditors remaining at CCM as at 31 December 2017 was three (3). All auditors possess accounting background, and is headed by a qualified Group Internal Auditor.

The total expenditure incurred for Group Integrity & Assurance Department for the financial year ended 31 December 2017, which amongst others included departmental expenditures such as office running expenses, training expenses, travelling expenses, staff remuneration, etc. was RM2.35 million.

## STATEMENT ON GROUP INTEGRITY FUNCTION

In respect of integrity matters, the Group Integrity & Assurance Department reports to the Integrity Committee. The Integrity Committee is a sub-committee of the Audit & Compliance Committee and was chaired by Datuk Nik Moustpha bin Haji Nik Hassan (Independent Non-Executive Director). Due to the smaller size of the Group following the disposal of Fertilizers Business and demerger of CCMD from CCM, the Committee was dissolved on 25 November 2017. Hence, all related integrity matters are now undertaken to the Audit and Compliance Committee.

The Group Integrity & Assurance is responsible for, amongst others, conducting programmes to further inculcate and enhance integrity in the Group's culture, managing the CCM Whistleblowing hotline and enhancing business practices to further improve governance.

The key activities in 2017 were as follows:

- i) Sharing of CCM Chairman's integrity message and the related cases with all staff during the respective Division's Town Halls in March 2017.
- ii) Validation of the 2017 - 2019 Organisational Integrity Plan by representatives from the Institut Integriti Malaysia (INTEGRITI) and Malaysian Anti-Corruption Commission (MACC) in April 2017.
- iii) Conducting training for Board of Director and Senior Management entitled 'The Outward Mindset: Leadership & Self Betrayal' in July 2017.
- iv) Organising the Annual Integrity Day 2017 in November 2017 in conjunction with the launching of Sahabat Gerakan Revolusi Anti Rasuah (GERAH) by MACC.
- v) Implementation of Integrity Pact with the suppliers of CCM International (Philippines) Inc.