

# 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 2018.

## Composition of Audit and Compliance Committee and Meetings

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

During the financial year under review, Dato' Wan Mohd Fadzmi bin Che Wan Othman Fadzilah, an Independent Non-Executive Director was appointed as an additional member of the Audit and Compliance Committee with effect from 9 March 2018.

A total of seven (7) 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	7/7
Datin Paduka Kartini binti Hj. Abdul Manaf Member, Non-Independent Non-Executive Director	7/7
Dato' Seri Ir. Dr. Zaini bin Ujang Member, Independent Non-Executive Director	6/7
Dato' Wan Mohd Fadzmi bin Che Wan Othman Fadzilah Member, Independent Non-Executive Director (Appointed w.e.f. 9 March 2018)	6/6

## 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 2018, covering the audit focus area, which also included a review on the IT systems, audit materiality and methodology.
- (ii) Reviewed the external auditor's report for the financial year ended 31 December 2017, including matters relating to adjustments arising from the external audit review and adequacy of disclosures, prior to making recommendations to the Board for approvals.
- (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 the re-appointment and audit fees.
- (vi) Reviewed the quarterly reports in respect of the results to ensure compliance to the Malaysia 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 recurrent related party transactions entered into by the Group; and
- (ix) Reviewed the Directors' Statement on Risk Management and Internal Control (SORMIC) for inclusion in the 2018 Annual Report. The SORMIC was supported by the Annual Assurance Statement on Risk Management and Internal Control, 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 and 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 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, employee Industrial Relations matters and major insurance claims.
- (v) Ensured the recommended principles and best practices of the Malaysia 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 detrimental 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) Reviewed and approved the 2019 Annual Internal Audit Plan to ensure adequate coverage of the Group's operations.
- (ix) Reviewed the 2019 budget and Key Performance Indicators of the Group Risk, Integrity & Assurance Department.

#### **Integrity**

- (i) Reviewed all concerns raised through the Whistleblowing Hotline and authorised investigation(s), where necessary.
- (ii) Deliberated on special investigation reports prepared by the Group Integrity Auditor and provided feedback on the actions taken by Management on the issues at hand. The progress of the significant cases was monitored until their closure.
- (iii) Reviewed and recommended to the Board the proposed revision to the policy on Donation and Sponsorship.

# Report of the Audit and Compliance Committee

## STATEMENT ON INTERNAL AUDIT FUNCTION

The Group internal audit function (which resides in the Group Risk, Integrity & Assurance Department) conducted all 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 internal audit function 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 2018, the areas under review included:

- Compliance with Department of Environment (DOE) requirements,
- Human Resource,
- Vendor Management,
- Project Management,
- Warehouse and Inventory Management,
- Governance.

The Internal Audit reports, which included issues and action plans, were presented to and discussed with the Management. The Group internal audit function 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.

### (iii) Internal Audit Resources and Cost

All audit assignments conducted in 2018 was carried out by three (3) auditors. All auditors possess accounting background, and is headed by a qualified Group Internal Auditor.

The total expenditure incurred for Group Risk, Integrity & Assurance Department for the financial year ended 31 December 2018, which amongst others included departmental expenditures such as office running expenses, training expenses, travelling expenses, staff remuneration, etc. was at RM1 million.

**STATEMENT ON GROUP INTEGRITY FUNCTION**

The Group Integrity Unit (of the Group Risk, Integrity & Assurance Department) reports to the Audit and Compliance Committee on all integrity matters. 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.

The key activities in 2018 were as follows:

- (i) Inculcate the value of 'Gratitude' amongst the staff through various programmes throughout the Group
- (ii) Conducted the Integrity Pact briefings for suppliers
- (iii) Conducted Board of Director and Senior Management training entitled "New Way of Doing Business in Malaysia"
- (iv) Conducted awareness training for new employees