

# Report of the Audit and Risk Management Committee

## Composition of Audit and Risk Management Committee and Meetings

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

During the year, Dato' N. Sadasivan, who resigned from the Board of the Company effective 31 December 2009, also resigned from the Committee on even date. A review of all the Board Committees was conducted in the current year. As a result, Dato' Kalsom binti Abdul Rahman was appointed as a Committee Member with effect from 25 February 2010.

A total of six (6) meetings were held during the year. The status of directorship and attendance record of each of the members during the year are as follows:

Name of Directors and Status	No. of Meetings Held
Abdul Rahim bin Abdul Hamid <b>Chairman, Independent Non-Executive Director</b>	6/6
Datuk Dr Saharan bin Haji Anang (appointed w.e.f. 01/01/2009) <b>Independent Non-Executive Director</b>	6/6
Dato' Kalsom binti Abdul Rahman (appointed w.e.f. 25/02/2010) <b>Senior Independent Non-Executive Director</b>	N/A
Dato' N. Sadasivan (resigned w.e.f. 31/12/2009) <b>Senior Independent Non-Executive Director</b>	4/6

### Terms of Reference

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

### Membership

- The Audit and Risk Management Committee shall be appointed by the Board of Directors and shall consist a minimum of three (3) non-executive directors, a majority of whom are independent.

- The Chairman of the Audit and Risk Management Committee shall be approved by the Board and shall be an Independent Non-Executive Director.
- 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

- Meetings shall be held no less than four (4) times a year;
- The quorum shall be two (2) members, who must be Independent Directors;
- The Group Finance Director, the Group Chief Internal Auditor and Group Risk Management Officer shall normally be invited to attend the meeting;
- Any other Board members, the Group Managing Director and any other representatives as deemed necessary shall be invited to attend the meeting;
- The Committee shall meet with the external auditors, the internal auditors or both, excluding the attendance of other directors or employees of the listed issuer at least twice a year or whenever is deemed necessary;
- The Secretary to the Committee shall be the Group Company Secretary.

**Authority**

The Audit and Risk Management Committee is authorised by the Board:-

- i. to seek any information relevant to its activities from employees of the Group;
- ii. the necessary resources required to carry out its duties and to obtain independent professional advice it considers necessary;
- iii. 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.
- 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 and risk management function of the Group:
  - review and approve the annual audit and risk management plan;
  - review the adequacy of the scope, functions, competency and resources of internal audit and risk management functions and that it has the necessary authority to carry out its work;

- review the internal audit and risk management plans and results of these activities and where necessary, ensure that appropriate actions are taken on the recommendations of these functions;
  - review and endorse the audit charter which outlines the purpose, authority and responsibility of the Group Internal Audit;
  - review the annual budget for Group Internal Audit;
  - review any appraisal on performance as well as competency of the Group Internal Audit and Risk Management functions;
  - approve any appointment or termination of senior staff members of the Group Internal Audit and Risk Management functions; and
  - take cognisance of resignations of members of the Group Internal Audit and Risk Management functions and provide the resigning staff member an opportunity to submit his reasons for resigning.
- vii. To review any related-party transactions that may arise within the Group;
  - viii. To review the major findings of internal investigations and management's response; and
  - ix. To consider other topics as defined by the Board.

**Activities during the year**

- i. Reviewed and approved the internal audit and risk management plan of the Group;
- ii. Reviewed the status report of internal audit and risk management activities of the Group for the year to ensure that all the planned activities were properly carried out;
- iii. Reviewed the summary of the internal audit and risk assessment reports prepared by Group Internal Audit and monitoring the status of corrective actions taken by the Management to ensure all audit and risk management issues and concerns are adequately resolved on timely basis;

Activities during the year (cont.)

- iv. Reviewed the Group Risk Profile and the management process for identifying, evaluating and managing the significant risks faced by the Group;
- v. Reviewed the management letters, reports and fees of the external auditors;
- vi. Evaluated the performance of the external auditors and made recommendations to the Board on their re-appointment and audit fees;
- vii. Reviewed the quarterly and annual reports of the Group prior to the submission to the Board for consideration and approval;
- 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.

#### **Statement on Internal Audit Function**

The Group has an in-house Internal Audit Department whose 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 are adequate and continue to operate effectively and efficiently in achieving the objectives of the Group.

The total expenditure incurred for Group Internal Audit for the financial year, which amongst others includes departmental expenditures such as office running expenses, training expenses, travelling expenses, staff remuneration, etc. is estimated at RM1.75 million.

#### **Activities during the year**

The Group Internal Audit had conducted various operational audits, follow-up audits as well as ad-hoc assignments for the CCM Group of Companies in accordance with the Audit and Risk Management Committee's approved Audit Plan for 2009. Among the areas covered were Finance, Sales, Production and Maintenance, Office Services Quality Assurance, Quality Control, Production Planning, Human Resources, Procurement, Good Manufacturing Practices and Plant operations of CCM Berhad, CCM Fertilizers Sdn Bhd, CCM Chemicals Sdn Bhd, CCM Pharmaceuticals Sdn Bhd, CCM Duopharma Biotech Berhad, CCM Usaha Kimia (M) Sdn Bhd, CCM Marketing Sdn Bhd, Innovax Sdn Bhd and also overseas operation offices in Indonesia, Singapore, Thailand, Vietnam and Philippines.

#### **Statement on Risk Management Function**

The Group has an in-house risk management function which is performed at the Group level. The key risks which are identified through the risk management process are reported to the Risk Management Council and also the Audit and Risk Management Committee of the Board. This enable the Audit and Risk Management Committee to focus on the key risks inherent in the Group's business and operations and the system of internal control necessary to manage such risks.

#### **Activities during the year**

The Group Risk Management function has conducted various operational, strategic and related assignments in accordance with the Audit and Risk Management Committee's approved Risk Management Programme for 2009. These include, review and update of the business divisions' key strategic risk profiles, risk assessment of new fertilizers plant and pharmaceuticals warehouse projects, Competency Gaps, Advertisement & Promotion Issues for OTC Products as well as operations of regional offices.