

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL



INTRODUCTION

THE BOARD OF DIRECTORS OF KULIM (MALAYSIA) BERHAD (“THE BOARD”) IS PLEASED TO PROVIDE THE STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL PURSUANT TO THE REVISED MALAYSIAN CODE ON CORPORATE GOVERNANCE 2012 (“MCCG 2012”) IN REPORTING THE STATE OF ITS INTERNAL CONTROL AND ESTABLISHING A SOUND RISK MANAGEMENT FRAMEWORK AND INTERNAL CONTROL SYSTEM.

THE STATEMENT IS PREPARED IN ACCORDANCE WITH THE “STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL: GUIDELINES FOR DIRECTORS OF LISTED ISSUERS”. THESE GUIDELINES SET OUT THE OBLIGATIONS OF MANAGEMENT AND THE BOARD WITH RESPECT TO RISK MANAGEMENT AND INTERNAL CONTROL. IT ALSO PROVIDES GUIDANCE ON THE KEY ELEMENTS NEEDED IN MAINTAINING A SOUND SYSTEM OF RISK MANAGEMENT AND INTERNAL CONTROL AND DESCRIBES THE PROCESS THAT SHOULD BE CONSIDERED IN REVIEWING ITS EFFECTIVENESS.

BOARD’S RESPONSIBILITIES

The Board acknowledges overall responsibility for the Group’s risk management and internal controls. This includes the establishment of an appropriate control environment and framework, as well as reviewing the effectiveness, adequacy and integrity of this system.

The Board recognises the importance of sound risk management and internal control system practices to good corporate governance with the objective of safeguarding the shareholders’ investment and the Group’s assets.

Good corporate governance practices contribute towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long-term shareholders’ value, whilst taking into account the interests of other stakeholders.

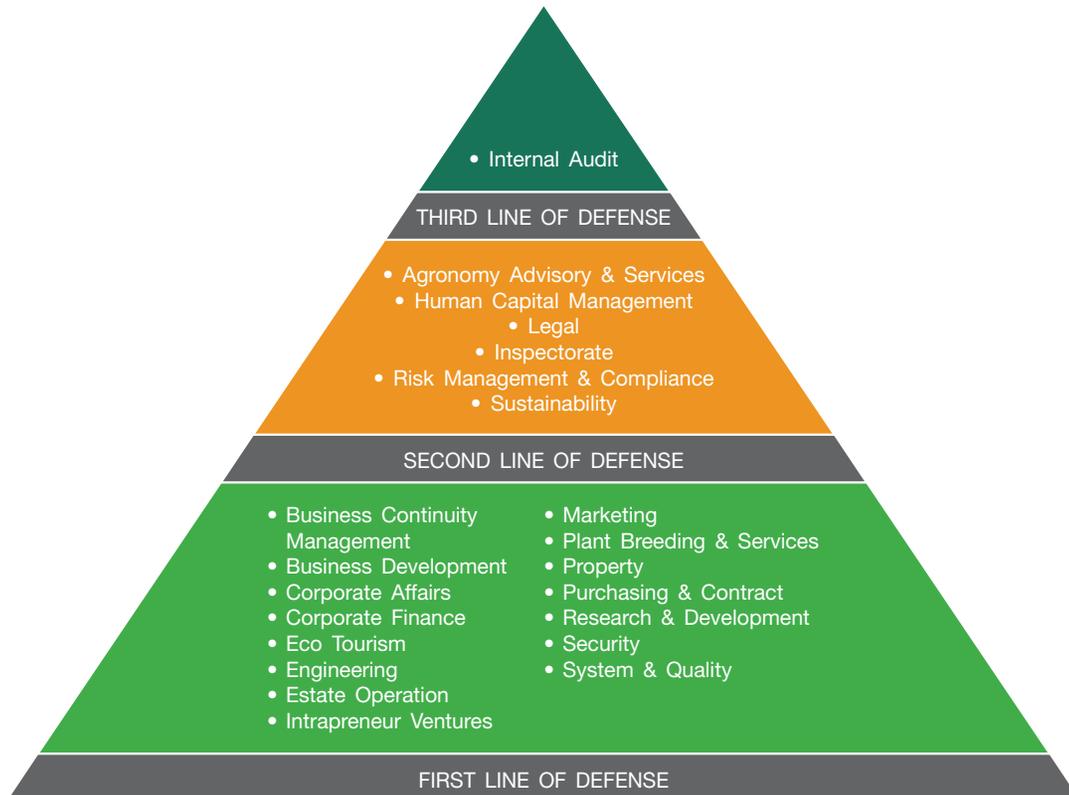
The Group has in place an ongoing control structure and process for identifying, analysing, evaluating and managing the significant risks to the achievement of strategy, policies and business objectives throughout the financial year under review up to the date of approval of this statement. This process is regularly reviewed by the Board with assistance from the management. The Board retains overall responsibility for implementing and monitoring the internal control and risk management process within the Group.

The Group’s system of internal control is designed to manage, rather than eliminate the risk which could arise from human error, the possibility of poor judgment in decision making, control process being deliberately circumvented by employees and others, management overriding controls and the incidence of unforeseeable circumstances. Accordingly, it must be recognised that the system can only provide reasonable and not absolute assurance against misstatement, breaches of laws or regulations, fraud or losses. In addition, the management needs to consider the expected cost and benefits to be derived from the implementation of the internal control system.

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RISK MANAGEMENT FRAMEWORK

To ensure that effective corporate governance is practised throughout the Group, the Group adopts an Enterprise Risk Management (“ERM”) framework which incorporates the principles and guidelines of ISO 31000:2009 Risk Management. The framework determines the process and identifies tools for realising the Group’s objectives aside from supporting and sustaining risk management throughout the organisation. It supports the Group’s efforts to achieve the highest levels of corporate governance, including the creation of value in the short and long-term.



The Group recognises that it is obliged to systematically manage and regularly review its risk profile at a strategic, financial, compliance and operational level. The Three (3) Lines of Defense make a distinction among three (3) groups involved in effective risk management. As the first line of defense the management owns and manages risks. They are also responsible for implementing corrective actions to address process and control deficiencies.

The second line of defense ensures that the first line of defense is properly designed, in place, and operating as intended. As oversight functions, they may intervene directly in modifying and developing the internal control and risk systems.

On the third line of defense, internal audit provides assurance on the effectiveness of governance, risk management and internal controls, including the manner in which the first and second lines of defense achieve risk management and control objectives.

The Risk and Issues Management Committee (“RIMC”) is represented by senior management from all functions of the Group. The Committee met three (3) times in 2016. This Committee, which is cross-functional in nature, was formed to assist the Board in implementing the processes for identifying, analysing, evaluating, monitoring and reporting of risks and internal control and to ensure proper management of risks to which the Group is exposed and to take appropriate and timely actions to manage such risks.

On an annual basis, the Internal Audit function assists the Board in reviewing the effectiveness of risk management and internal controls and providing an independent view on specific risks and control issues, the state of internal controls, trends and/or events.

The ERM risk reporting structure; risk management and internal controls are intertwined within the Group’s activities at a strategic and operational level.

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The structure of the ERM risk reporting promotes the active participation of executive management in all of the operational and strategic decisions affecting their business units. A strong culture of ownership and accountability is built through a clear identification of specific roles and responsibilities of the Board, Management Committee, RIMC, Risk Management and Compliance Department, Risk Owner, Risk Co-Owner, Internal Audit Department and all Staff.

The unambiguous identification of roles and responsibilities among these groups promotes improved accountability so that there are neither gaps in controls nor unnecessary

duplications of coverage. This has also improved the control owner's understanding of the boundaries of their responsibilities and how their positions fit into the organisation's overall risk and control structure.

The key success factors of the Group's risk management process are active contribution and communication at operational or strategic level. Group's risks are managed on an integrated basis and their evaluation is incorporated into the Group's decision-making process such as strategic planning and project feasibility studies. This will ensure the Group has reliable information and appropriate plans to handle the changing environment.

The Group's ERM approach which prioritises risks according to their likelihood and impact goes through the following steps:



Department or Business Unit Risk Assessment:

The risk owner performs an exercise to identify and assess risk. The main sources of reference used at the identification phase are the business plans and budgets, financial and production performances, board and annual reports, audit findings, market and sector research and historical data. The exercise also covers a comprehensive occupational health and safety risk assessment process through the Hazard Identification, Risk Assessment and Risk Control ("HIRAC"). The risk owner provides to the Risk Management and Compliance Department on a quarterly basis. The risk level is determined according to their respective financial or non-financial risk parameter.



Presentation to the RIMC:

The Risk Management and Compliance Department will facilitate the risk owner during the risk assessment and risk action planning. Each risk will be evaluated in terms of the adequacy and effectiveness of the existing internal checks and balances controls, so as to provide a reasonable assurance that the likelihood and impact of the adverse event is within a manageable and acceptable level. The level of likelihood of a particular outcome actually occurring, including a consideration of the frequency of the event is determined using an approved likelihood parameter. The impact, of an event is similarly evaluated using an approved financial or non-financial impact parameter. On a quarterly basis, the Group Chief Risk Officer will present all the risks and its mitigation actions from the department and business units to the RIMC. The RIMC will review, rank and debate the risk ratings, control effectiveness, risk treatment options plans identified by the risk owners.



Compilation of Group Risk Profile:

The Group Chief Risk Officer extracts all the endorsed top risks as tabled in RIMC as the Group Risk Profile in accordance with the Group's financial or non-financial risk parameter.



Audit Committee Review:

A risk management report is tabled to AC on a quarterly basis. The AC provides an objective view on the Top Group Risk, requests and challenges risk information from the business and acts as a change catalyst in risk and control areas in the Group.

In ensuring the Group achieves its objectives, sustains the businesses and continues to add value to the stakeholders in the short, medium and long-term, the risk management process and approach is tailored to Kulim's structure and its constantly changing environment to ensure that the Group can continuously monitor and review its risks and the effectiveness of its risk management over time. Based on the results of monitoring and reviews, decisions are made on how the risk management programme can be improved. These decisions should lead to improvements in the Group's management of risks and its risk management culture.

A separate risk management function also exists within the Group's listed subsidiary with the establishment of its own RIMC to assess and evaluate the risk management process of the company on a periodic basis.

In essence, the management of risks is treated as an iterative process. The benefits arising from effective risk management processes is the creation of awareness of risks among employees of different departments. This significantly enhances the Risk Ownership factor across the Group.

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TOP FIVE (5) GROUP RISKS

The following represents the Group's top strategic and operational risks that may create a significant or material adverse impact to the Group as well as impede the achievement of the established objectives and affect the Group's ability to create value over the short, medium and long-term.

RISK FACTORS	MITIGATING STRATEGIES
Economy-wide phenomena which affect the rate of growth, CPO prices and increase operating costs.	<ul style="list-style-type: none"> ✓ Market intelligence and being up-to-date on market conditions. ✓ Combination strategies of spot and forward contract for sales and procurement. ✓ Taking into account forecasts of market conditions. ✓ Enhance the productivity, efficiency and utilisation of available resources, while simultaneously abiding to the principles of sustainability. ✓ Continuous effort in cost saving initiatives and prudent CAPEX and OPEX management.
Replacement of Investment is critical in ensuring growth and business continuity.	<ul style="list-style-type: none"> ✓ Continuously explore and secure new opportunities. ✓ Comprehensive assessment and feasibility study for each new investment. ✓ Incorporate good governance and internal controls practices.
New investment's Risks with regards to the industry, laws and regulations, politics, country and local risks.	<ul style="list-style-type: none"> ✓ Revisit and strengthen the strategy to ensure the success of the investment. ✓ Putting in place workable internal control and monitoring framework including corporate and systems infrastructure. ✓ Proactive engagement with business partners and local stakeholders.
Liquidity Risk on existing and future funding requirements which could change the Group's gearing level and risk exposure on interest rate and foreign exchange.	<ul style="list-style-type: none"> ✓ Matching of inflows and outflows of cash and maintaining sufficient credit facilities. ✓ Borrowings are created in a particular currency to match payments and receipts, or liabilities and assets. ✓ Capital restructuring. ✓ Monitor the agreed covenants with the lenders.
Safety, Health and Environment ("SHE") commitment towards building a fair, ethical and responsible company.	<ul style="list-style-type: none"> ✓ Ensuring that SHE's related issues are preventable; establish a workable and consistent approach to ensure no repetitive occurrences. ✓ Embraces the principles of sustainable development in respect of People, Planet and Profit. ✓ Embarks in various initiatives in achieving the emissions reduction targets.

CONTROL ENVIRONMENT AND CONTROL ACTIVITIES

Key to the Group's Internal Control and Risk Management process is its Control Self-Assessment ("CSA") process. The process is a recognised and flexible management tool for acquiring information about business process risks, while empowering the risk owners to undertake responsibility for managing those risks. Risk assessment and evaluation form an integral part of the annual strategic cycle. The Board, as part of the annual strategic review, considers and approves the Group's risk structure.

The Board has adopted a control framework for ensuring the achievement of the Group's established objectives and that the Group's business operations are effectively managed.

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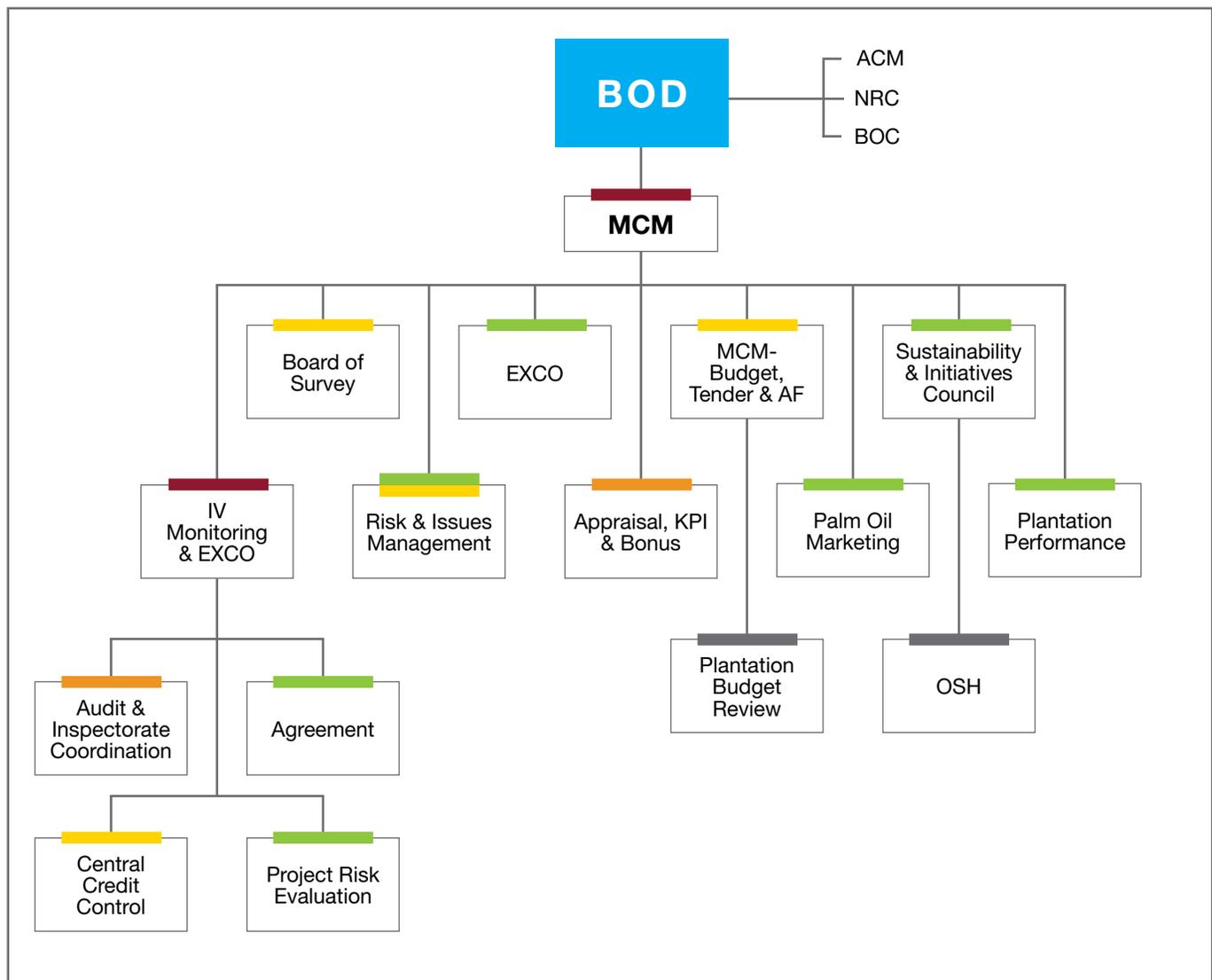
The key elements of the Group’s system of internal control are as follows:

BOARD AND MANAGEMENT COMMITTEES

Board and Management Committees are set up to promote corporate governance, transparency and accountability and to assist the Board in implementing and monitoring the system of internal controls within the Group with the aim of realising the vision, mission, strategies and objectives established for the Group.

The Committees oversee the areas assigned according to their Terms of Reference (“TOR”) which are carefully developed to ensure that it is aligned with the Group’s objectives, short-term and long-term strategic plans and to avoid overlapping activities and gaps in governance coverage.

COMMITTEE STRUCTURE



- Strategic Direction
- Strategic & Business Direction
- Direction Monitoring & Risk Control
- Financial Operation & Business Risk
- Performance Monitoring

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BOARD COMMITTEE	
NAME OF COMMITTEE	PRIMARY FUNCTION
Nomination and Remuneration Committee (“NRC”)	To oversee the selection and assessment of directors by development, maintenance and review of the criteria to be used in the recruitment process and annual assessment of directors. The Committee is also responsible for establishing formal and transparent remuneration policies and procedures to attract and retain directors.
Board Option Committee (“BOC”)	To review and amend at any time and from time to time, any provision of the By-laws.
MANAGEMENT COMMITTEE	
NAME OF COMMITTEE	PRIMARY FUNCTION
Management Committee (“MCM”)	To review and evaluate the performance progress including the key policy and strategy implementations of the various divisions, subsidiaries and operating units of the Group. Where authorised, to formulate and approve matters relating to Group policy, objectives and business strategy and projects, and where necessary to evaluate and recommend for Board’s approval.
Executive Committee (“EXCO”)	To coordinate departmental roles and administrative matters in relation to the various divisional operations and to review, recommend and seek Management’s approval on any related proposals.
Management Committee – Budget, Tender and Additional Capital & Revenue Expenditure (“MCM – Budget, Tender & AF”)	To recommend to the MCM the award of contracts for purchases and projects to suppliers/contractors in accordance with the Contract Administration Guidelines and Procedures of the Company. To review the budget and all requests pertaining to capital and revenue spending and to recommend them for the ratification of the MCM.
Risk and Issues Management Committee	To conduct risk identification, evaluation and review of risk treatment process on a periodic basis to ensure that the Group is managing risks effectively. Further details on the Committee are set out in pages 141 to 144.
Plantation Performance Committee	To ensure that estates and mills own and the managed by the Group operate in accordance with Group’s requirements and at the best possible standards.
Palm oil Marketing Committee	To review and decide on the appropriate selling arrangement, quantity and prices of the Group’s palm products.
Board of Survey	To review all requests pertaining to write-off or write-back on fixed assets, debtors, stocks and creditors and recommend them for the ratification of the MCM.
Sustainability and Initiatives Council	To oversee and monitor the development, implementation, maintenance, compliance and effectiveness of all matters relevant to sustainability and quality initiatives of the Group as well as ensuring compliance with the principles and criteria of RSPO.
Appraisal, KPI and Bonus Committee	To deliberate on performance, KPIs, behavioural competencies and recommend appropriate increments, promotions and merit of all executives and corporate office staff.
Plantation Budget Review	To ensure that the Plantation Operation budget is prepared with the objective of maximising the long-term profitability of the Group’s oil palm plantations and at the same time, maintaining their sustainability.
OSH Committee	To foster cooperation and consultation between the management and workers in identifying, evaluating and controlling hazards at workplaces.

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The company has also established committees to ensure the effective management and supervision of the Intrapreneur Ventures (“IV”) companies.

COMMITTEES FOR INTRAPRENEUR VENTURES	
NAME OF COMMITTEE	PRIMARY FUNCTION
IV Monitoring and Executive Committee (“IV EXCO”)	To monitor progress and development of all the IV companies with the objective of strengthening respective business and management capabilities by providing necessary business guidance and referrals. To evaluate viability of projects, proposals, funding, capital expenditure or capital adequacy of the IV companies.
Central Credit Control Committee	To appraise the IV companies on its financial health, performance and compliance to Malaysia Financial Reporting Standards (“MFRS”), Income Tax Act and internal controls of the IVs which are related to credit control.
Project Risk Evaluation Committee	To ensure that IV companies/projects are being run, coordinated and managed at the best possible standards and in compliance with the Group’s requirements and risk management policies.
Audit and Inspectorate Coordination Committee	To monitor the Internal Control System and recommend improvement of the Internal Control System and practices to achieve the company’s objectives. To ensure that the operations of IV companies are in compliance with laws and regulations and the Group’s Code of Conduct and Business Ethics and that the IV companies are being managed in line with the aspiration and expectations of Kulim.
Agreement Committee	To ensure that material agreements are forwarded for Committee discussion and/or approval. This is to ensure and safeguard the Group’s interest.

ORGANISATION STRUCTURE

The Board has established a formal organisation structure for the Group with delineated lines of authority, responsibility and accountability. The organisation structure is formed by focusing both on performance delivery and business continuity through succession planning. It fosters and promotes the continual development of employees, and ensures that key positions maintain some measure of stability, thus enabling the Group to achieve business objectives.

The structure supports the Group’s ability to ensure that qualified and experienced management personnel which head the Group’s diverse operating units are always available and in place to carry out their job functions. Their performance is measured against Key Performance Indicators (“KPI”) which have been approved by the Board.

OTHER ELEMENTS OF INTERNAL CONTROL

Apart from the committees and parties mentioned in the Corporate Governance Statement, the Audit Committee Report and sections above, the other elements of the Group’s Internal Controls are as follows:

FINANCIAL AUTHORITY LIMIT

The Financial Authority Limit defines revenue and capital expenditure spending limits for each level of management within the Group. These limits cover authority for cheques signatories, major capital and revenue expenditure spending limits, purchasing and contract procedures and approval mechanism for budget.

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BUDGET APPROVAL

Budget is an important control mechanism used by the Group to ensure an efficient allocation of Group's resources and that the operational managers have sufficient guidance in making business decisions. Budgets are generated annually at each subsidiary and operating unit.

For the plantation units, budgets will be reviewed by the Regional Controllers followed by their presentation to the Plantation Budget Review Committee for further deliberation.

Significant subsidiaries will have their budgets reviewed by their own budget committee. All budgets will then be presented for deliberation at the MCM - Budget, Tender and AF Committee, and subsequently will be tabled to MCM for approval and endorsement. Finally the budgets will be presented to the Board for final review and approval.

PROCUREMENT

A centralised and coordinated procurement function is established at each of the Group's key business division which enables the Group to leverage on economies of scale and ensures adherence to authority limits, policies and procedures.

Major contracts and supply works of both capital and revenue in nature exceeding the defined threshold amounts in the relevant contract procedure are required to be tendered out. Eligible bidders for contract works will need to attend a contract interview with the Contract Interview Committee, which is made up of representatives from several departments at the divisional headquarter including the acquiring unit's Manager. The Contract Interview Committee will then forward the recommendations to the MCM - Budget, Tender and AF Committee for further review and approval.

OPERATING AND PROCEDURAL MANUALS

The Group has reference manuals covering agricultural practices, procurement, financial operating system and financial policies and procedures. These will assist and guide employees on purchasing and contract awards, preparing of financial statements, observing the various internal control policies and procedures, as well as maintaining good management practices to ensure cost efficiencies, integrity of financial records and to safeguard the Group's assets. The Board believes that all these control measures will significantly enhance the internal control of the Group.

FORWARD SALES POLICY

The Group has in place a forward sales policy for its palm products which has been approved by the Board. For Malaysian palm oil products, the Group adopts a forward policy covering a maximum of six (6) months and 90% of the Group's own fruits.

STATUTORY AND REGULATORY COMPLIANCE

The Group is committed to complying with all statutory and regulatory requirement and is subject to regular inspections by the relevant government authorities.

WHISTLEBLOWING POLICY

The Group is committed to the highest standard of integrity, openness and accountability in the conduct of its businesses and operations. It aspires to conduct its affairs in an ethical, responsible and transparent manner.

This Policy was introduced to ensure that a process is in place to allow stakeholders to report alleged improper or unlawful conduct without fear of retribution. It is an integral component of Kulim's zero tolerance policy on fraud and corruption.

The Group views seriously any detrimental action taken against a whistleblower or any person related to or associated with the whistleblower in reprisal for a disclosure of improper conduct and will treat such action as gross misconduct.

This Policy aims to:

- encourage stakeholders to feel confident in raising serious concerns and to question and act upon concerns;
- provide avenues to raise those concerns and receive feedback on any action taken;
- ensure that whistleblowers receive a response and are aware of how to pursue further action if they are not satisfied; and
- provide reassurance that whistleblower will be protected from possible retaliation.

The Group has also established a Grievance Policy and Procedure as well as Women OnWards so as to allow employees to bring to the attention of the management of Kulim any dissatisfaction or feeling of injustice which may exist in respect of the workplace. The management will attempt to resolve the grievance in a manner, which is acceptable to the employee concerned and the Group.

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NO GIFT POLICY

The No Gift Policy was established as part of the Group's continuous effort to uphold the Anti-Corruption Principles through the Corporate Integrity Pledge.

All employees and directors are required to demonstrate commitment to treating all people and organisations impartially, with unbiased professionalism and non-discriminatory actions in relation to all suppliers, customers, contractors, employees, potential suppliers, potential employees, and any other individual or organisation.

The Group will work towards creating a business environment that is free from corruption, protect the interests of the shareholders and will uphold the above principles in the conduct of its business.

CODE OF ETHICS

This Code of Ethics defines the standards of conduct that are expected of employees to help them make the right decision in the course of performing their jobs to the highest standards of ethic, integrity and governance. Among others, the Code also requires the employees to ensure the following:

- maintaining full and accurate company records;
- all assets and property of the company will be used only for the benefit of the company;
- always dealing with customers and suppliers based on merit and fairness;
- engage competitors in a fair manner and not to engage in any unfair or illegal practice in order to gain an unfair advantage;
- always act to ensure a workplace environment that is free from harassment and discrimination; and
- deal with all team members with respect, courtesy and fairness.

All employees are required to adhere to the Group's Code of Ethics and to submit the Ethics Declaration Form annually.

MAINTAINING COMPLIANCE TO THE RSPO CERTIFICATION REQUIREMENT

Sustainability is a core value of the Group. Kulim has established its sustainability credentials by attaining RSPO certification. Safeguarding this reputation is critical to the organisation and the Group has put in place control measures in the form of appropriate policies, monitoring systems and procedures so as to minimise, if not prevent the risks of non-compliance with the requirements of RSPO. Among the key measures are:

- site follow-up visits and inspections are conducted on periodic basis to review the status of compliance, weaknesses and gaps in the implementations of various programs, which is also in line with the requirements of Principle 8 of RSPO on Continuous Improvement;
- KPI affecting key aspects of the certification requirements are developed to complement the economic indicators, which are subject to regular monitoring on their achievement progress;
- RSPO trainings and briefings are conducted regularly to ensure changes and updates on RSPO requirements are communicated to all affected employees;
- In relation to the requirements of laws regulation in the areas of safety and health, Kulim regularly collaborates with suppliers and contractors towards ensuring both parties' responsibilities in complying with the relevant legislations;
- Proper documentation and reference systems are established. These include Kulim Sustainability Handbook that sets out all relevant policies to guide employees. All system documentation are monitored and controlled through the Document Annual Review; and
- In relation to the social impact of the business on the various levels of stakeholders, internal social impact assesments, guided by the SA8000 Standard are conducted on all Operating Units to identify shortcomings which are monitored through the Social Register.

AUDIT COMMITTEE REPORT

COMPOSITION AND ATTENDANCE

AS AT THE DATE OF ISSUANCE OF THIS INTEGRATED ANNUAL REPORT, THE COMPOSITION OF THE AUDIT COMMITTEE CONSISTS OF THREE (3) MEMBERS AS FOLLOWS:



Dr. Radzuan A. Rahman
Chairman/Independent
Non-Executive Director



Wong Seng Lee
Member



Aziah Ahmad
Member

For the financial year ended 31 December 2016, prior to the delisting of the company on 4 August 2016, the Audit Committee consist of three (3) directors of Kulim (Malaysia) Berhad.

The composition of the Audit Committee prior to the delisting was as follows:

Tan Sri Dato' Seri Utama Arshad Ayub	Chairman/Independent Non-Executive Director
Dr. Radzuan A. Rahman	Member/Independent Non-Executive Director
Leung Kok Keong	Member/Independent Non-Executive Director

The attendance record of the members of the Audit Committee during the financial year 2016 prior to the delisting of the Company was as follows:

DIRECTOR	DATE OF MEETINGS	
	22/02/2016	26/05/2016
Tan Sri Dato' Seri Utama Arshad Ayub	/	/
Dr. Radzuan A. Rahman	/	/
Leung Kok Keong	/	/

AUDIT COMMITTEE REPORT

SUMMARY OF ACTIVITIES

The main activities undertaken by the Audit Committee during the year were as follows:

SCOPE OF RESPONSIBILITIES	ACTIVITIES
Financial	<ul style="list-style-type: none"> - Review of the Company's compliance, in particular the quarterly and year-end financial statements with the applicable approved accounting standard issued by the Malaysian Accounting Standard Board.
Internal Control	<ul style="list-style-type: none"> - Review of the risk management report presented by Chief Risk Officer. - Review of the Group's risks, requests and challenges risk information and reviewing management's mitigation strategy.
Internal Audit	<ul style="list-style-type: none"> - Review and approval of the annual internal audit plan for the year 2016. - Review of the Internal Audit activities related to management and operations, capacity, internal audit framework and of the analytical process and reporting procedures. - Review of the audit reports presented by the Internal Auditors and management's responses thereto and reviewing management's assurance that significant findings are adequately addressed. - Closed session with Internal Audit without the presence of management.
External Audit	<ul style="list-style-type: none"> - Review of the External Auditors' audit observation, the audit report and recommendations in respect of control weaknesses noted in the course of their audit.
Compliance	<ul style="list-style-type: none"> - Review of the extent of the Group's compliance with the relevant provisions set out under the Malaysian Code on Corporate Governance.

AUDIT COMMITTEE REPORT

INTERNAL AUDIT FUNCTION



Kasmawati Kasian
Head of Internal Audit

The Group's Internal Audit function is carried out by the Internal Audit Department ("IAD") and led by a Certified Internal Auditor ("CIA"). The IAD reports directly to the Audit Committee and is guided by its Internal Audit Charter. The IAD assists the Board in fulfilling its fiduciary responsibilities over the areas of financial, operational, information systems, investigations, risk management and governance process in accordance with the approved Risk Based Annual Audit Plan.

On quarterly basis, the IAD provides the Audit Committee with independent and objective reports on the state of internal control, highlighting any areas for improvement and updates on the extent to which the recommendations have been implemented. The management is responsible to ensure that corrective actions on reported weaknesses as recommended are taken within the required time frame to ensure that all potential weaknesses in system and risks under reviewed area are mitigated or remain within acceptable levels.

The External Auditors issue a Management Letter highlighting issues and weaknesses, which came to their attention during the conduct of their normal audit procedures. The Group's Internal Audit subsequently performs follow-up reviews to determine the extent to which the recommendations have been implemented.

The IAD operates within the Audit Charter approved by the Audit Committee and performs internal audit across the Group's diverse areas and environment focusing on any management, accounting, financial and operational activities including the effectiveness of risk management process and internal control within the organisation. In year 2016, the audit coverage was focused on high risk areas which were identified by leveraging the organisation's risk management framework as well as IAD's own risk assessment. It also covered management request as well as consulting activity which are in line with the Audit Charter.

The Group's Internal Audit maintains a Quality Assurance and Improvement Programme ("QAIP") and continuously monitors its overall effectiveness. In year 2016, periodic assessment to evaluate conformance with the International Standards for the Professional Practice of Internal Auditing ("Standards") was conducted by the department.

The total cost incurred for the Internal Audit function at the Group's Corporate Office level for the financial year ended 31 December 2016 was approximately RM2,140,000.