
Report of the Audit and Risk Management Committee

A. COMPOSITION

Chairman

Y.M. Tunku Afwida Binti Tunku A.Malek (*Independent Non-Executive Director*)

Members

Datuk Muhamad Noor Bin Hamid (*Independent Non-Executive Director*)

Ar. Datuk Tan Pei Ing⁽¹⁾ (*Non-Independent Non-Executive Director*)

Former Member

Daniel Nikolaus Bach⁽²⁾ (*Non-Independent Non-Executive Director*)

Notes:

⁽¹⁾ Appointed as Member of the Audit and Risk Management Committee on 20 April 2018

⁽²⁾ Resigned as Member of the Audit and Risk Management Committee on 20 April 2018

The Audit and Risk Management Committee is chaired by Y.M. Tunku Afwida Binti Tunku A. Malek who is a member of the Malaysian Institute of Accountants and a Chartered Accountant from the Institute of Chartered Accountants in England and Wales. She has had extensive experience in the provision of advisory services in corporate finance including compliance related and funding advisory related services, and has held various positions in several financial organisations in Malaysia.

The other members of the Audit and Risk Management Committee are Datuk Muhamad Noor Bin Hamid and Ar. Datuk Tan Pei Ing. Datuk Muhamad Noor has many years of experience serving on the Boards of listed companies in Malaysia and has more than 30 years of working experience in the oil and gas industry ranging from project planning and implementation, operation, consulting and contracting. Ar. Datuk Tan Pei Ing has over 30 years of working experience as a professional architect in her own practice, P.I. Architect and has carried out and completed a wide range of projects including construction designing of industrial buildings and hotels.

B. TERMS OF REFERENCE

Structure of the Audit and Risk Management Committee

The Audit and Risk Management Committee is a committee appointed by the Board and shall comprise at least 3 directors. All members should be non-executive directors with the majority of the members to be independent non-executive directors. At least one member must be a member of The Malaysian Institute of Accountants, or if he is not a member of The Malaysian Institute of Accountants, he must have at least 3 years' working experience and (i) he must have passed the examinations specified in Part I of the First Schedule of Accountants Act 1967, or (ii) he must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967, or fulfills such other requirements as prescribed by the Exchange. The Chairman of the Committee shall be an independent non-executive director and be elected from amongst their members. All members of the Committee, including the Chairman, will hold office until otherwise determined by the Board. In the event of any vacancy in the Audit and Risk Management Committee resulting in non-compliance with the Listing Requirements, the Board of Directors shall within 3 months of that event appoint such new member(s) as may be required to comply with the Listing Requirements. The Audit and Risk Management Committee shall require that a former key audit partner observes a cooling-off period of at least 2 years from his/her last engagement before being appointed as a member of the Audit and Risk Management Committee.

Authority

The Committee is authorised by the Board to investigate any activity within its terms of reference and to seek any information it requires from the Management and any employee. The Management and employees are directed to co-operate with any request made by the Committee. The Committee may convene meetings with external auditors or internal auditors without the presence of Management, if deemed necessary.

The Committee is authorised by the Board to obtain independent legal and professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this to be necessary.

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Functions

- i. To review the effectiveness of the Company's policies and plans for risk management, internal controls and governance systems, including overseeing the Company's identification of risks;
 - ii. To review the effectiveness and implementation of the policies, governance systems and ensure proper action is taken to address or mitigate the risks;
 - iii. To review and/or identify the adoption of appropriate steps for potential or unpredictable risks;
 - iv. To ensure that risks are managed within the appropriate and adequate levels of tolerance as approved by the Board;
 - v. To ensure that risks management plans are widely disseminated throughout the Group and integrated in the Group's day-to-day activities;
 - vi. To consider the appointment of the external auditors, the audit fee and any question of resignation or dismissal;
 - vii. To discuss with the external auditors before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
 - viii. To consider if the annual financial statements are in compliance with applicable accounting standards in accordance with the approved Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act;
 - ix. To review the quarterly and year-end financial statements of the Company, focusing particularly on:
 - any change in accounting policies and practices;
 - significant adjustments arising from the audit;
 - significant matters highlighted, significant judgments made by management, significant and unusual events or transactions, and how each of the foregoing matters were addressed;
 - the going concern assumption; and
 - compliance with accounting standards and other legal requirements;
 - x. To discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of Management, where necessary);
 - xi. To review the external auditors' evaluation of the system of internal control, management letter and management's response;
 - xii. To do the following in relation to the internal audit function:
 - Review the adequacy of the scope, functions, competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;
 - Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function;
 - Review any appraisal or assessment of the performance of members of the internal audit function;
 - Approve any appointment or termination of senior staff members of the internal audit function; and
 - Take cognisance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning;
 - xiii. To consider any related-party transactions and conflict of interest situation that may arise within the company or group;
 - xiv. To consider the major findings of internal investigations and Management's response;
 - xv. To consider other topics as defined by the Board; and
 - xvi. To meet with external auditors at least twice in a financial year without the presence of Management to discuss any issues or reservations arising from the audits and any other matter the external auditor may wish to discuss.
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C. MEETINGS AND MINUTES

The Committee shall meet at least 4 times a year and the quorum for any meeting shall be 2 members, who must be independent directors. The Chief Executive Officer, Chief Financial Officer and the Head of Internal Audit will be invited to attend all meetings of the Committee. There shall be at least 2 meetings a year with external auditors including 2 meetings without the members of Management and the external auditors will also be invited to attend additional meetings, where appropriate. The external auditors may request a meeting if they consider it necessary. Other Board members may attend meetings upon the invitation of the Committee.

The Company Secretaries shall be the secretaries of the Committee and as a reporting procedure, the minutes of each Committee meeting shall be circulated to all members of the Board.

A total of 5 meetings were held during the year 2018. The membership status and attendance record of each of the members are as follows:

	Attendance	%
Current Members		
Y.M. Tunku Afwida Binti Tunku A.Malek (<i>Chairman, Independent Non-Executive Director</i>)	5/5	100
Datuk Muhamad Noor Bin Hamid (<i>Member, Independent Non-Executive Director</i>)	5/5	100
Ar. Datuk Tan Pei Ing (<i>Member, Non-Independent Non-Executive Director</i>) ⁽¹⁾	4/4	100
Former Members		
Daniel Nikolaus Bach (<i>Member, Non-Independent Non-Executive Director</i>) ⁽²⁾	1/1	100
Secretaries		
Koh Poi San	5/5	100
Serene Lee Huey Fei	2/3	67
Former Secretary		
Katina Nurani Abd Rahim	1/1	100

Notes:

⁽¹⁾ Appointed as Member of the Audit and Risk Management Committee on 20 April 2018

⁽²⁾ Resigned as Member of the Audit and Risk Management Committee on 20 April 2018

D. SUMMARY OF ACTIVITIES DURING THE FINANCIAL YEAR

The Audit & Risk Management Committee carried out its duties in accordance with its terms of reference during FY2018.

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

(i) Financial Results

- Reviewed the annual financial statements of the Company prior to submission to the Board for their consideration and approval focusing particularly on any changes of accounting policy, significant matters highlighted, significant judgments made by Management, significant and unusual events or transactions, and how these matters were addressed.

- Reviewed the annual financial statements for compliance with applicable accounting standards in accordance with the approved Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act.
 - Reviewed the quarterly unaudited financial results announcements prior to recommending them for approval by the Board.
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(ii) External Audit

In totality, the Committee had 2 meetings with the external auditors in 2018 including 2 discussions without the presence of Management. During these meetings, the following were carried out:

- Reviewed the Progress Report to Those Charged with Governance with the external auditors, covering the financial highlights, significant risks and other areas of focus, materiality threshold and audit misstatements, audit process and execution, any significant deficiencies in internal control and other management letters, critical accounting judgments and any key sources of uncertainty, written representations, independence and analysis of professional fees.
- Reviewed the Professional Services Planning Memorandum with the external auditors, covering the primary audit objectives and approach, client service team, materiality, audit risk assessment, significant risks, areas of audit focus, consideration of fraud, internal control plan, involvement of internal auditors and internal specialists, involvement of audit data analytics, involvement of component auditors, timing of audit, engagement of quality control, independence policies and procedures, and relevant technical pronouncements and accounting standards issued by the Malaysian Accounting Standards Board, International Financial Reporting Standards and the requirements of the Companies Act and the Malaysian Code on Corporate Governance.
- Reviewed the results of the audit and the audit report with the external auditors, in particular, to the accounting issues and significant audit adjustments arising from the external audit, significant risks/key audit areas which include the risk of management override of controls, revenue recognition, allowance for inventory obsolescence, and assessment of impairment of goodwill.
- Reviewed the areas of audit focus with the external auditors, which include impairment assessment of tangible and intangible assets, assessment of tax claims against a subsidiary of the Company, review of related party transactions, and assessment of impairment for intercompany receivables between two of the Company's subsidiaries.

(iii) Assessing Independence, Suitability, Objectivity and Cost Effectiveness of the External Auditors

- Reviewed the independence, suitability, objectivity and cost effectiveness of the external auditors before approving their remuneration and recommending their appointment to the Shareholders. The Committee scrutinized and discussed the external auditors' annual fees before recommending to the Board for approval.
- Reviewed the suitability and independence of the external auditors during the review of the Progress Report to Those Charged with Governance. The factors considered include the competency and the adequacy of experience and resources of the firm and professional staff assigned to perform the audit.
- As part of the annual audit exercise, the Committee obtained assurance from the external auditors confirming that they are and have been independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements. Following the above stated reviews and the assurance obtained, the Committee remains confident of the external auditor's independence and suitability.

(iv) Internal Audit/Internal Control

- Instructed for a forensic audit investigation on a stock issue and reviewed the result of the forensic audit investigation and ensured appropriate actions and remediation are taken by the Company.
 - Reviewed the annual audit plan to ensure adequate scope and coverage on the activities of the Company taking into consideration the assessment of the key internal control risks areas.
 - Reviewed the resource requirements of the Internal Audit Department for the year and assessed the performance of the Internal Audit Department.
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- Reviewed the internal audit reports, audit recommendations made and Management's response to these recommendations and actions taken to improve the system of internal control and procedures.
- Monitored the implementation of the audit recommendations to ensure that all key risks and controls have been addressed.
- Monitored and reviewed the impact and progress of compliance with the system of internal control and procedures.
- Reviewed risk management processes and updates from Management on the existence of mitigating controls and action plans identified to mitigate the business risks identified.

(v) Related Party Transactions

- Reviewed significant related party transactions entered into/to be entered into by the Company and the LafargeHolcim Group.
- Reviewed the processes and procedures on related party transactions/recurrent related party transactions to ensure that related parties are appropriately identified and are declared, approved and reported appropriately.
- Reviewed the procedures and processes for monitoring, tracking and identifying recurrent related party transactions in a timely and orderly manner to ensure adequacy and sufficiency of the procedures in determining that the recurrent related party transactions are not more favourable to the related parties than those generally available to the public and are not detrimental to the minority shareholders.
- Reviewed the Circular to Shareholders with regards to the proposed renewal of shareholders' mandate for existing recurrent related party transactions and proposed new shareholders' mandate for additional recurrent related party transactions of a revenue or trading nature for recommendation to the Board for approval.

(vi) Governance

- Reviewed the Report of the Audit and Risk Management Committee and recommended to the Board for inclusion in the 2018 Annual Report.
- Reviewed the Statement of Risk Management and Internal Control and recommended to the Board for inclusion in the 2018 Annual Report.

E. INTERNAL AUDIT FUNCTIONS AND SUMMARY OF ACTIVITIES

The Company has an in-house Internal Audit Department that reports directly to the Audit and Risk Management Committee and assists the Audit and Risk Management Committee in the discharge of its duties and responsibilities. Its role is to provide independent assurance on the adequacy and effectiveness of the risk management, internal control and governance process.

Risk assessment is carried out to examine the Company's business activities and the inherent risks. Audits are prioritised taking into consideration the assessment of the key risks areas.

Internal audit covers amongst others the review of the adequacy of risk management, operation controls, compliance with established procedures, guidelines, statutory requirements and management efficiency. International standards and best practices are adopted from the LafargeHolcim Group to enhance the effectiveness of the internal audit activities. The areas of coverage in 2018 include audits on plant shutdown management and control processes, the enterprise resource planning system, management of stock and inventory, management of logistics and supply chain, security, and other ad hoc reviews.

Further details of the activities of the Internal Audit Department are set out in the Statement on Risk Management and Internal Control under pages 41 to 45 of the Annual Report.
