

# REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

## INTRODUCTION

The Board of Directors of CCM Duopharma Biotech Berhad (“the Company”) is pleased to present the report of the Audit and Risk Management Committee (“ARMC” or “Committee”) for the financial year ended 31 December 2015.

## COMPOSITION OF AUDIT AND RISK MANAGEMENT COMMITTEE AND MEETINGS

For the financial year ended 31 December 2015, the composition of the ARMC stood at four (4) members of whom three (3) are independent.

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

<b>Members of ARMC</b>	<b>No. of Meetings Attended</b>
<b>Dato’ Haji Ghazali bin Awang</b> Chairman, Senior Independent Non-Executive Director	6/6
<b>Tan Sri Dato’ Dr. Jegathesan a/I N.M. Vasagam @ Manikavasagam</b> Member, Independent Non-Executive Director	6/6
<b>Datuk Alias bin Ali</b> Member, Non-Independent Non-Executive Director	6/6
<b>Dato’ Mohamad Kamarudin bin Hassan</b> Member, Independent Non-Executive Director	6/6

## TERMS OF REFERENCE

In fulfilling its duties and objectives, the ARMC is guided by the Terms of Reference as follows:-

### Membership

- The ARMC shall be appointed by the Board of Directors and shall all consist of Non-Executive Directors, majority of whom are independent;
- The Chairman of the ARMC shall be approved by the Board and shall be an Independent Non-Executive Director;

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- At least one member of the Committee:-
  - (i) must be a member of the Malaysian Institute of Accountants (“MIA”); or
  - (ii) 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 Associations of Accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.
  - (iii) fulfills 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 Chief Executive Officer, Chief Financial Officer, the Group Internal Auditor (“GIA”) and the Group Risk Management Officer shall normally be invited to attend the meeting;
- Any other Board members and any other representatives as deemed necessary shall be invited to attend the meeting;
- The Committee shall meet with the external auditors, internal auditors or both, in the absence of other directors and employees of the listed issuer at least twice a year or whenever deemed necessary; and
- The Secretary to the Committee shall be the Company Secretary or her representative.

## **Authority**

The ARMC is authorised by the Board:

- (i) to seek any information relevant to its activities from employees of the Company;
- (ii) to engage the necessary resources required to carry out its duties and to obtain independent professional advice it considers necessary; and
- (iii) to have full and unlimited access to any information and documents pertaining to the Company.

In addition to the above, the ARMC will keep under review the effectiveness of Company's Risk Management system, taking into account:-

- (i) the development and maintenance by Management of a comprehensive Risk Management framework;
- (ii) the Company's culture of Risk Management (including awareness, education and training for all levels of staff);
- (iii) feedback from Management and the External Auditors on the effectiveness of Risk Management system;
- (iv) changes to the Company's risk profiles, arising from the material, financial and non-financial risks facing the divisions and/or any part of the Company; and
- (v) the impact and mitigation of significant risk events.

## **Responsibilities**

### **(a) Audit Function**

- (i) To consider and recommend to the Board on 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 review the internal audit and risk management reports and where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit and risk management function;

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- (vii) To do the following, in relation to the internal audit functions:-
  - (a) Review and approve the annual audit plan;
  - (b) Review the adequacy of the scope, functions, competency and resources of the internal audit function and that they have the necessary authority to carry out its work;
  - (c) Review and endorse the audit charter which outlines the purpose, authority and responsibility of the internal audit function;
  - (d) Review the internal audit reports and where necessary, ensure that appropriate actions are taken on the recommendations made in these reports;
  - (e) Review the annual budget for the internal audit;
  - (f) Review any appraisal on performance as well as competency of the internal audit function; and
  - (g) Take cognisance of resignations of internal audit staff/members and provide the resigning staff/member an opportunity to submit his reasons for resigning.
- (viii) To consider any related-party transactions that may arise within the Group;
- (ix) To consider the major findings of internal investigations and Management's response; and
- (x) To consider other matters as required by the Board.

## **(b) Risk Function**

- (i) To set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to the Management;
- (ii) To recommend to the Board, the Company's risk-reward strategy, monitor risk profile, risk appetite and ensure that the Company maintains an appropriate balance of Risk Transfer and Risk Control measures to address business risks;
- (iii) To monitor changes anticipated for the economic and business environment, including consideration of emerging risks, legislative or regulatory changes, major initiatives and other factors considered relevant to the Company's risk profile;

- (iv) To receive reports from the Group Risk Department (“GRD”) which have been duly reviewed/deliberated by respective Management and Risk Committees concerning:-
  - (a) Risk Management policies, strategies, processes and controls, status of the implementation and effectiveness thereof, within the divisions and, if thought fit, approve or vary them;
  - (b) Alignment or integration of risk management activities with other management activities/tools which include formulation of strategies, development of business plans, budgeting, forecasting and performance review, within the Company; and
  - (c) Identification and management of enterprise risks which could impact the achievement of business objectives.
- (v) Review any appraisal on performance as well as competency of the GRD function; and
- (vi) Take cognisance of resignations of risk management staff/members and provide the resigning staff/member an opportunity to submit his reasons for resigning.

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

- (i) Reviewed and approved the Company’s internal audit plan for the year;
- (ii) Reviewed the audit strategy and planning for the financial year ended 31 December 2015 prepared by the External Auditors;
- (iii) Reviewed the status report of internal audit and risk management activities for the year to ensure that all the planned activities for the Company were properly carried out;
- (iv) Reviewed the summary of the internal audit and risk assessment reports prepared by Group Internal Auditor and Group Risk Department Officers, respectively and monitor the status of corrective actions taken by the Management to ensure all audit and risk management issues and concerns are adequately resolved on a timely basis;
- (v) Reviewed the internal audit report on corporate governance, work progress and Group Internal Auditor’s KPI Scorecard for the year;
- (vi) Reviewed the Company’s Risk Profile and the management process for identifying, evaluating and managing the significant risks faced by the Company;

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- (vii) Reviewed the Management letters, reports and fees of the external auditors;
- (viii) Evaluated the performance of the external auditors and made recommendations to the Board on their re-appointment and audit fees;
- (ix) Reviewed and recommended the quarterly reports in respect of the results to the Board for subsequent release to Bursa Malaysia;
- (x) Reviewed and recommended the Annual Report of the Company prior to the submission to the Board for consideration and approval;
- (xi) Reviewed the related party transactions entered into by the Company and the disclosure of such transactions in the Annual Report and circular on recurrent related party transactions;
- (xii) Reviewed and recommended to the Board dividends to be declared to the Shareholders of the Company;
- (xiii) Reviewed and recommended bad debts to be written off and disposal of fixed assets to the Board for consideration and approval;
- (xiv) Reviewed and recommended to the Board the proposals relating to strategic business proposals and corporate exercises; and
- (xv) Reviewed the results of inquiries conducted pertaining to alleged misconduct and make the appropriate recommendations to the Board on actions to be taken.

## STATEMENT ON INTERNAL AUDIT FUNCTION

The audits on the Company's operations were undertaken by the Group Internal Audit function of its holding company. The Group Internal Auditor reports directly to the ARMC to promote independence and enable it to maintain objectivity to render unbiased judgments.

The internal audit function's purpose, authority and responsibilities are stated in the Internal Audit Charter, which is approved by the ARMC. The internal audit function is responsible for undertaking regular and systematic risk-based assessments of the internal control of the Company so as to provide reasonable assurance that such systems are adequate and continue to operate effectively in managing the key risks of the Company.

The Group Internal Audit formulated the Annual Internal Audit Plan based on the risk assessment of the business operations and the audit cycle, which was then approved by the ARMC. Group Internal Audit 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 2015, the Group Internal Audit had conducted various operational audits on areas, amongst others, Sales, Inventory Management, Procurement, Production Planning, Finance and Recurrent Related Party Transactions. The Internal Audit reports, which included issues and action plans, were presented to and discussed with Management. Group Internal Audit subsequently monitored the implementation of the agreed action plans to ensure full compliance. The reports together with follow-up action plans and implementation status were presented to the ARMC for their deliberation and subsequent approval.

The performance of the Group Internal audit function was presented to the ARMC on a quarterly basis.

The total expenditure incurred for Group Internal Audit function 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 RM290,000.

## **STATEMENT ON RISK MANAGEMENT FUNCTION**

There is a dedicated in-house risk management function at CCMB Group level which facilitates the overall risk management process within the Group and the Company. Significant risks are identified, assessed, and reported to the ARMC throughout the year on quarterly basis based on the Group's approved risk management framework. The quarterly risk reports highlight the Group's and the Company's Risk Profile to enable Management to focus on key risks affecting the Group's businesses and operations and the system of internal control necessary to manage such risks.

### **Activities during the year**

#### **Risk Management Framework Review**

In December 2014, the CCMB Group carried out a review on its existing Risk Management Framework. In order to further strengthen the CCMB Group's risk management framework and practices, the following three (3) key initiatives were implemented throughout 2015 across the CCMB Group's businesses which included the Group and the Company:-

#### **1. Strengthening the Policy**

A Risk Management Manual and Guidelines ('RMMG') document was formalised as the main reference document for risk management activities within the CCMB Group and adopted by the Company. The RMMG is a consolidation of previously approved Risk Management guidelines documents mainly the policy, framework, governance structure, responsibilities, risk management process, and the risk management tools. Revisions were made on the Risk Appetite to reflect the current operating environment, and this revision has also been incorporated into the RMMG.

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## **2. Elevating understanding on Risk Management**

A formalised Risk Assessment Workshops were carried for the Group and Company to ensure appropriate coverage of risk identification, analysis, evaluation and treatment within the Group and Company. As a result, comprehensive risk registers were developed and these were linked to the Company's KPIs for 2015.

Risk management refresher trainings were conducted for the Company's Board of Directors, Senior Management and the line managers. The trainings aimed at providing the participants with the essential knowledge in risk management, as well as to roll out the approved RMMG document to all employees.

## **3. Culture Building**

Risk management culture is continuously inculcated throughout the Group through continuous monitoring and planned risk review sessions by the CCMB Group Risk Department. Risk management programmes such as workshops and trainings sessions will be continuously carried out in the following years to ensure all employees are familiarised with the risk management culture as well as equipped with the required skills and knowledge.

### **Risk Reporting**

Quarterly reports to the ARMC highlight the Group's and Company's Risk Profile to enable Board and Management to focus on, appraise and consider key risks affecting the Company's businesses and operations and the system of internal control necessary to manage and mitigate such risks. The ARMC reviewed the top risks for the Group and its business units. The reports highlight the movements of risk ratings as well as the progress of treatment plans that were identified to mitigate the risks.

### **Project Risk Assessment**

To ensure that the risk management process is integrated with other management activities such as formulation of strategies and development of business plans, all projects that require the approval from the Board, is now subjected to risk assessments, where the risk registers resulting from the assessment together with the mitigation plans are mandatorily tabled as part of the projects' proposals.

### **Code on Corporate Governance**

The ARMC recognises the recommendations of the revised Malaysian Code of Corporate Governance 2012 ("MCCG") in particular Principle 6.1: "Recognise and Manage Risk" in ensuring the current Group's and Company's ERM meets the objective of the said Code. The Group's and Company's ERM framework is based on ISO 31000, the international guidelines for managing risk and an automated and online risk management information system (RiSmart) is in place to facilitate the Group's and Company's ERM framework, methodology and processes.