BURSA MALAYSIA

Corporate Governance Guide Pull-out II

Guidance on Effective Audit and Risk Management

Corporate Governance:
Rise Together

4th Edition

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Introduction

Background

This Introduction to **Pull-out II ("Effective Audit and Risk Management")** is designed to provide companies with broad guidance in making suitable arrangements for their audit and risk management processes as well as to assist directors serving on audit committees in carrying out their role. The Introduction also intends to provide companies with direction in implementing the relevant enumerations of **Principle B** in the **Malaysian Code on Corporate Governance ("MCCG")** and thus, should be read in conjunction with the write-ups on the individual Practices and Step Ups encapsulated in this Pull-out.

In today's complex and evolving business environment, an effective audit and risk management process can make a strong contribution to a "no surprises" environment. Being vigilant of uncertainties requires companies to anticipate future challenges, understand what is on the horizon, and address risk more strategically – all of which calls for greater oversight, accountability and transparency.

In this regard, a robust audit committee can be a key feature of a strong corporate governance culture underpinned by effective audit and risk management. In discharging its mandate, it is imperative for audit committees to be supported by fundamental building blocks, namely an appropriate structure and foundation, well-defined responsibilities, an understanding of current and emerging issues as well as a proactive, risk-based approach to its work.

An audit committee's relationships with the board, management as well as internal and external auditors play a pivotal role in driving its effectiveness. The essential features of these interactions are a frank, open working relationship and a high level of mutual respect. The audit committee must be prepared to listen to their views (i.e. management, internal and external auditors), deliberate on the issues candidly and take a robust stance when necessary.

Every company needs to consider in detail what audit and risk management arrangements are best suited for its particular circumstances as what works best for one company may not necessarily be ideal for another. These arrangements need to be proportionate to the task and will vary according to the size, maturity, complexity and risk profile of the company. Nevertheless, there are certain guiding principles and practices which underlie the effectiveness of an audit and risk management process and they can help to ensure that company-specific approaches are applied effectively (i.e. by the right people with the right information, procedures and perspectives).

This Introduction is set out over three sections. **Section I** addresses the establishment and effectiveness of the audit committee. **Section II** explores the audit committee's responsibilities in overseeing the areas of financial reporting, related party transactions and conflicts of interests, internal control environment, internal audit and external audit. **Section III** meanwhile sheds light on the communication of audit, risk management and internal control matters.

SECTION I Establishment and effectiveness of the audit committee

Establishment and terms of reference

Given the importance of an audit committee to the governance structure of a company, the establishment of this committee is mandated for listed issuers through **paragraph 15.09 of Bursa Securities Listing Requirements, and Practice 9.1 - Practice 9.5 of the MCCG**. The need for a charter or written terms of reference and minimum functions of the audit committee (covered in **Section II** of this Introduction) is set out in **paragraphs 15.11 and 15.12 of Bursa Securities Listing Requirements.** Similar provisions are also encapsulated for financial institutions in **Standard 12.1 and Appendix I of Bank Negara Malaysia's Policy Document on Corporate Governance**.

The audit committee charter must be approved and adopted by the board and it must set out in sufficient detail the specific duties, responsibilities and authority of the audit committee. Such terms of reference will not only help committee members focus on their roles but the disclosure of such on the company's website will also enable stakeholders to be apprised of their responsibilities.

Once established, the charter should be assessed, reviewed and updated periodically by the committee or as and when there are changes to the regulatory requirements and changes to the direction or strategies of the company that may affect the audit committee's role.

The committee should recommend any changes to its terms of reference to the board for approval. The assessment of the committee's terms of reference should be a rigorous process, taking into consideration the company's circumstances and any new regulations that may have an effect on the audit committee's responsibilities.

Composition and membership

Appointments to the audit committee should be made by the board on the recommendation of the nominating committee, in consultation with the audit committee chairman. In determining the composition and membership of the audit committee, the board should take into account factors such as size, independence and desired skills and qualities of the members.

Size

The size of the audit committee will vary depending on the needs of the company, the board and the extent of responsibilities delegated.

Paragraph 15.09(1)(a) of Bursa Securities Listing Requirements mandates that the audit committee must be composed of not fewer than 3 members.

Independence

As stated in **paragraph 15.09(1)(b) of Bursa Securities Listing Requirements**, all the audit committee members must be non-executive directors, with a majority of them being independent directors. As outlined in **Step Up 9.4**, companies can go further in achieving corporate governance excellence by establishing audit committees comprising solely of independent directors.

Paragraph 15.10 of Bursa Securities Listing Requirements prescribes that the chairman of the audit committee must be an independent director. **Practice 9.1** highlights that the board chairman should not chair the audit committee, which is in line with **Practice 1.4** that calls for board chairman to not be a member of the audit committee. This serves to avert potential self-review threat and allows for objective discussions at the board level.

Detailed considerations on independence are covered in detail in the write-ups to **Practice 9.1 and Step Up 9.4**.

Skills and qualities

An appropriate level of expertise, experience and commitment amongst members is essential to the fulfilment of the committee's mandate.

Practice 9.5 calls for all members of the audit committee to be financially literate, as defined in **paragraph 15.09(1)(c)(i),(ii) and (iii) of Bursa Securities Listing Requirements**.

Detailed considerations on financial literacy and other pertinent qualities are covered in detail in the write-up to **Practice 9.5**.

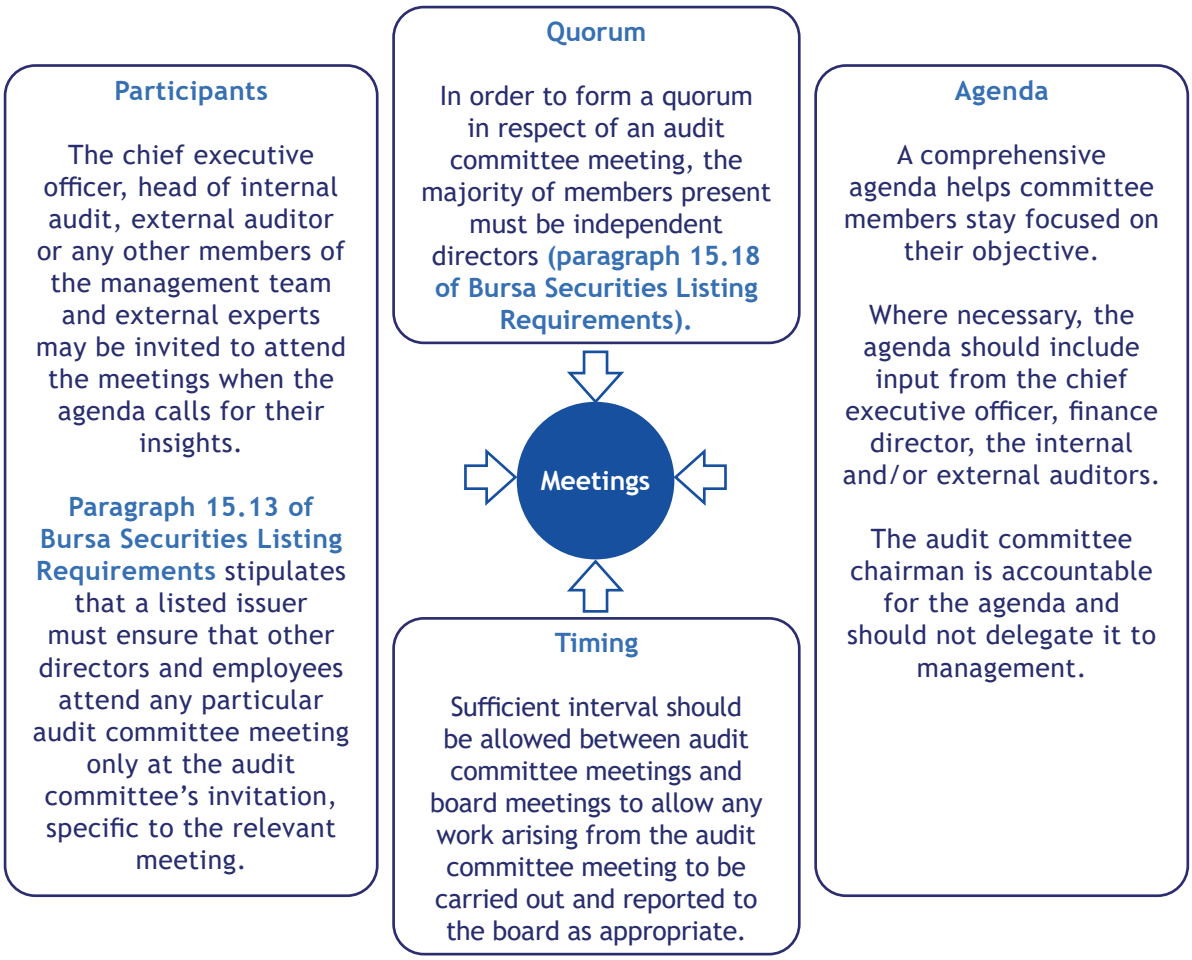
Meetings

It is for the audit committee chairman, in consultation with the company secretary, to decide on the frequency and timing of the audit committee's meetings. There should be as many meetings as the audit committee's roles and responsibilities require. The audit committees of the top 50 listed issuers (by market capitalisation as at 31 March 2021) meet at an average of seven times a year[1], with planned meetings held to coincide with the key dates within the financial reporting (quarterly results and annual reporting) and audit cycle. The audit committee should meet prior to the release of the company's quarterly results and annual reports to discuss on the proposed disclosures.

In terms of duration, sufficient time must be allocated to thoroughly address all items in the agenda and for all parties involved to ask questions or provide input. Audit committee members should be assured that they have covered all the agenda items without feeling pressured to rush discussions and decision-making.

The audit committee secretary plays an important role in organising and providing assistance during audit committee meetings. Generally, the company secretary is the audit committee secretary.

Other relevant considerations in organising an audit committee meeting are outlined below:



[1] Intelligence of KPMG Management & Risk Consulting Sdn Bhd, 2021

Rights and resources

Paragraph 15.17 of Bursa Securities Listing Requirements empowers audit committee with the rights to carry out its work in an unhindered manner.

> **Paragraph 15.17 of Bursa Securities Listing Requirements**
>
> **Rights of the audit committee**
>
> A listed issuer must ensure that wherever necessary and reasonable for the performance of its duties, an audit committee must, in accordance with a procedure to be determined by the board of directors and at the cost of the listed issuer –
>
> (a) have authority to investigate any matter within its terms of reference;
>
> (b) have the resources which are required to perform its duties;
>
> (c) have full and unrestricted access to any information pertaining to the listed issuer;
>
> (d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;
>
> (e) be able to obtain independent professional or other advice; and
>
> (f) be able to convene meetings with the external auditors, the person(s) carrying out the internal audit function or activity or both, excluding the attendance of other directors and employees of the listed issuer, whenever deemed necessary.

In furtherance of their duties, audit committees may enlist the services of external experts or advisors such as valuers, engineers or tax consultants at the cost of the company in accordance with a procedure determined by the board.

Performance evaluation

Paragraph 15.20 of Bursa Securities Listing Requirements states that the nominating committee of a listed issuer must review the term of office and performance of an audit committee and each of its members annually to determine whether such audit committee and members have carried out their duties in accordance with their terms of reference. Sample exhibits on the assessment of the audit committee as a whole and individual audit committee members are provided in **Appendix VI** and **Appendix VII** of **Pull-out I**.

Upon completion of the review, the nominating committee should deliberate on the outcome and provide suggestions to the board on appropriate remedial actions for the audit committee. For example, relevant training or education programmes may be recommended for audit committee members to carry out their duties in a more informed manner.

Training and development

Continuous professional development by all members of the audit committee is a necessary component in ensuring the audit committee keeps abreast with the relevant developments in accounting and auditing standards, practices and rules, as well as new technologies and its impact on the business and future of internal and external audit.

Training programmes can range from those related to the core functions of the audit committee, development of technical and interpersonal skills, the role and purpose of the audit committee and other topical updates. Training programmes should be systematic, and able to meet the learning objectives and expectations of the audit committee members.

With the support of the company secretary, the following steps should be pursued in relation to the continuous professional development of audit committee members:

Audit committee relationships and communications

The broadening of responsibilities, rising complexities of accounting and risk issues as well as the heightening demand of stakeholders necessitates audit committees to be more focused than ever in enhancing their efficiency and effectiveness. Vital to achieving these are the strength and collegiality of the audit committee's working relationships with the board of directors, management, internal and external auditors.

Better practices call for continuous engagement between the audit committee (particularly the chairman of the committee) and senior management (including executive members of the board) of the company, as well as the internal and external auditors. These engagement sessions serve as a platform for relevant issues affecting the company to be brought to the attention of the audit committee in a timely manner.

A brief summary of the audit committee's working relationship with the aforementioned parties is outlined below:

Relationship with the board

As the board is ultimately responsible for the oversight of the company, it needs to be consistently kept informed by the audit committee of its activities.

Any irregularities, significant findings or matters of concern under the purview of the audit committee should be communicated to the board immediately.

Any relevant proposals requiring substantive action by the board should also be submitted promptly in writing in order to provide board members ample time to review and consider the proposals.

Relationship with other board committees

The audit committee should develop regular communication and coordination with other board committees.

This ensures that important information is shared across the various committees, skills and expertise needed for the audit committee is understood by the nominating committee, potential overlaps in oversight responsibilities between board committees are avoided, risks of remuneration policies and procedures are better understood by the audit committee.

Relationship with internal and external auditors

Both internal and external auditors provide integral support to the audit committee by acting as a sounding board.

The audit committee should have direct and unrestricted access to the auditors without the presence of management. During these sessions, the audit committee can and should follow up on areas of concern identified by the internal and external auditors.

The audit committee should also make inquiries on significant discussions between management and the auditors.

Relationship with management

It is the responsibility of the audit committee to satisfy itself that management has maintained a sound internal control system and prepared complete and reliable financial statements and disclosures in accordance with the applicable approved accounting standards and in compliance with relevant rules and regulations.

In doing so, the audit committee should continuously apply critical and probing view as well as effectively challenge the assertions made by management in this regard.

In its working relationship with management, the audit committee should endeavour to achieve an adequate understanding of the representations made by management and scrutinise these matters accordingly.

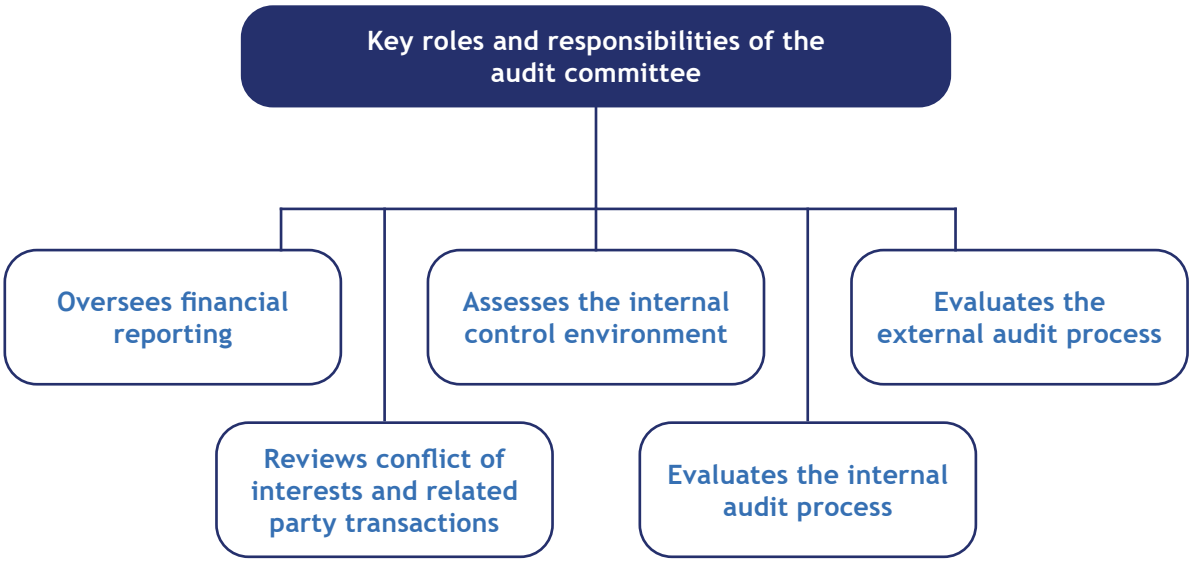
Some of the key questions that should be posed to management include:

- What is your assessment of the overall control environment including ability to detect/ identify in a timely manner related party transactions and conflict of interest situations?
- What processes do you have in place to ensure material errors will not occur?
- What materiality level did you employ in assessing whether the financial reports presented are of a true and fair view?
- Did you assess the materiality of all information reported to investors taking into account the information most valued by investors and regulatory requirements?
- What are the most significant estimates and judgments you made in preparing the financial report? What was the range of values used in those estimates? Justify the appropriateness of the underlying assumptions and the reliability of information/ methodologies/tools used.
- Are all key assumptions subject to appropriate internal controls and reasonable checks?
- What are the nature and size of year-end adjustments and related party transactions?
- Did any non-recurring transactions materially impact the financial results? If so, what were they and what was the impact?
- What were the major financial reporting standards and regulatory changes instituted during the year and what was their impact?
- What are the significant differences existing in the financials between the current and prior period? Why have these variances occurred?
- Is the financial result significantly different from the budget? If so, why?
- Which aspects of the company's financial viability and sustainability do you feel least comfortable with?
- Have there been any disagreements between management and the internal or external auditors? If so, what were they and how were they resolved?
- How do you monitor the effective application of policies, processes and activities related to internal control and risk management?
- What are the steps taken to ensure you provide a single view of risk and internal control if there are inconsistencies in risk or internal control information received from competing functions?
- Have you identified material ESG risks faced by the company?
- What controls are in place to ensure that ESG information is reliable? Have you considered whether some level of assurance would increase confidence in the disclosures?

SECTION II Roles and responsibilities of the audit committee

Understanding of roles and responsibilities

An effective audit committee should be critically aware of its responsibilities, fully understand and embrace them, and recognise what is necessary to fulfil them. The audit committee must be vigilant, informed and diligent in fulfilling its oversight responsibilities. As outlined in **paragraph 15.12 of Bursa Securities Listing Requirements**, every audit committee should at the very least assume the following fundamental responsibilities:



In addition to the aforementioned responsibility areas, audit committees of financial institutions are also required to review the accuracy and adequacy of the chairman's statement in the directors' report, corporate governance disclosures, interim financial reports and preliminary announcements in relation to the preparation of financial statements[2].

Oversight of financial reporting

Paragraph 15.12(1)(g) of Bursa Securities Listing Requirements requires the audit committee to review the quarterly results and year-end financial statements prior to approval by the board of directors, focusing particularly on –

(i) changes in or implementation of major accounting policy changes;

(ii) significant matters highlighted including financial reporting issues, significant judgments made by management, significant and unusual events or transactions, and how these matters are addressed; and

(iii) compliance with accounting standards and other legal requirements.

[2] Paragraph 10, Appendix 1 of Bank Negara Malaysia's Policy Document on Corporate Governance

It is essential for the audit committee to ensure that the finance function within a company is carried out by the right personnel with the skills, experience, training and authority suitable to the industry and the complexity of the company's business.

Apart from having the right personnel, audit committees should also ensure that the finance function is equipped with adequate resources (i.e. human capital and technology) and the right infrastructure (i.e. financial and accounting systems) to support the financial reporting process.

In reviewing the quarterly results and year-end financial statements, the audit committee should also be vigilant of significant adjustments arising from the external audit (e.g. impairment of assets during the global oil and gas downturn) and the appropriateness of the going concern assumption used in preparation of the financial statements. The audit committee is encouraged to consult the external auditors on these matters if the need arises.

In general, the audit committee should focus on the following when reviewing financial statements of the company:

- monitoring the integrity of the company's financial information such as ensuring information is supported by proper documents, reviewing the relevance and consistency of the accounting principles used (including criteria and principles used for consolidation) and understanding the effects of any changes in the accounting policies and practices, either as a result of changes in regulatory requirements or mooted by management for better accounting treatment;

- understanding the methods used to account for any complex and unusual transactions where their treatment may be open to different approaches and any significant accounting policy issues or audit adjustments recommended by auditors (those agreed by management and those waived);

- ensuring any significant accounting policy issues or audit adjustments recommended by auditors are communicated early enough to enable appropriate actions to be taken, as needed;

- assessing the company's financial position/condition including risk of tax exposures and considering the question of going concern;

- assessing the process of how transactions are recorded in the system to ensure accuracy, completeness and consistency of financial information, including compliance with the relevant accounting standards and other legal requirements;

- considering related party transactions, the financial impact of such transactions and whether they have been entered into according to the terms stipulated in the shareholders' mandate or in the best interests of the company;

- requesting external auditors to present their findings on internal control weaknesses noted during their statutory audits and highlighting findings which are disputed by management or where management has not agreed to implement remedial actions to rectify the reported weaknesses; and

- understanding non-financial information which is relevant in assisting the audit committee to gain further insights into the company's financial results (e.g. the impact of capacity utilisation on the company's profit margin and the impact of the actions by competitors on the company's revenue).

Appendix I of this **Pull-out** sets out a list of indicators that the audit committees should be aware of in relation to financial reporting and a sample questionnaire that can be customised to seek management's representation on a range of financial reporting matters.

Review of conflict of interest situations and related party transactions

The audit committee is tasked under **paragraph 15.12(1)(h) of Bursa Securities Listing Requirements** to review and report to the board on any related party transactions (including recurrent related party transactions) and conflict of interest situations that may arise within the listed issuer or group. This includes any transaction, procedure or course of conduct that raises questions of management's integrity. The audit committee should therefore ensure that the transactions carried out are amongst others, in the best interest of the listed issuer as well as not detrimental to the minority shareholders[3].

Conflicts of interest situations generally refer to circumstances where a person with a vested interest in the company is in a position or has the opportunity to influence the company's business or other decisions in ways that could lead to personal gain or advantage of any kind ("interested parties").

Examples of situations that are likely to give rise to conflicts of interest amongst others include the following:

- where the interested party(ies) have an interest in a business that competes or is likely to compete, either directly or indirectly, with the business of the company or its subsidiaries (collectively "the group");

- where the interested party(ies) conduct or have an interest in business transactions involving goods or services, either directly or indirectly, with the group;

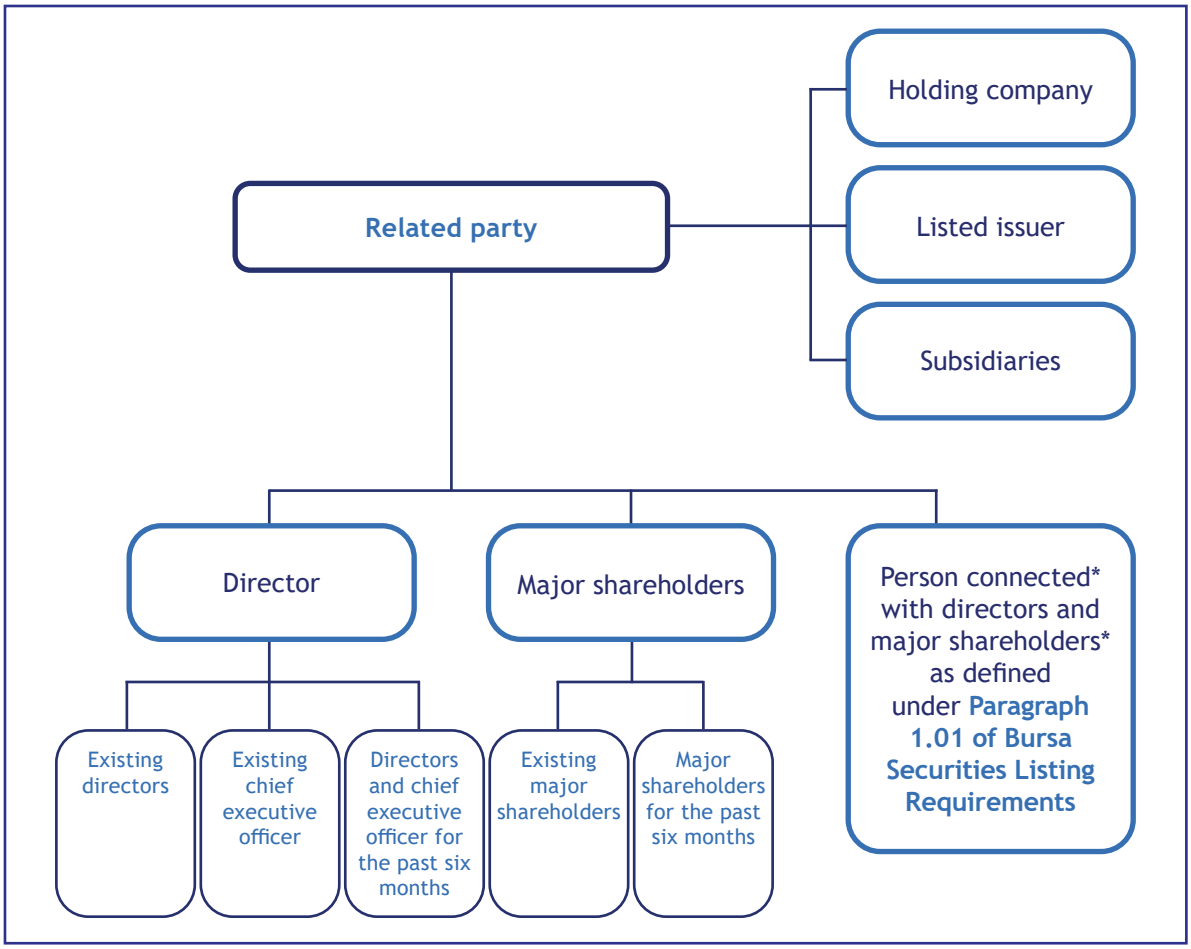
- where the interested party(ies) provide or receive financial assistance from the group; and

- where the interested party(ies) lease property to or from the group.

[3] Refer to **paragraph 3(a), Appendix 10C of Bursa Securities Listing Requirements**

A related party transaction meanwhile is a transaction entered into by the listed issuer or its subsidiaries which involves the interest, direct or indirect, of a related party. **Paragraph 1.01 of Bursa Securities Listing Requirements** defines a related party in relation to a corporation as a director, major shareholder[4] or person connected with such director or major shareholder. Transactions that fall within the ambit of related party transactions include the acquisition, disposal or leasing of assets, establishment of joint ventures, provision of financial assistance, provision or receipt of services or any business transaction or arrangement entered into by the listed issuer or its subsidiaries[5].

The various persons who are included in the definition of a related party as stated in **Chapter 10 of Bursa Securities Listing Requirements** are depicted below.



[4] Major shareholder refers to a person who has an interest in 10% or more of the total number of voting shares in the corporation; or 5% or more of the total number of voting shares in the corporation where such person is the largest shareholder of the corporation.
[5] **Paragraph 10.02(l)(ii) of Bursa Securities Listing Requirements.**

In addition to **Bursa Securities Listing Requirements**, companies (including listed issuers) which come under the purview of reporting within the **Malaysian Financial Reporting Standard 124** (Related Party Disclosures) are required to provide disclosures on related party transactions which are defined as the "transfer of resources, services or obligations between a reporting entity and a related party[6], regardless of whether a price is charged".

Companies should also be cognisant of **Section 228 of Companies Act 2016** which prescribes the obligations of a company (i.e. to obtain prior shareholder approval at a general meeting) in respect of transactions involving a director or substantial shareholder[7] of the company or its holding company, or its subsidiary, or a person connected with a director or substantial shareholder.

Taking into account the aforementioned enumerations, it is therefore incumbent on companies, particularly listed issuers through the audit committee, to determine how to address conflict of interest situations and monitor compliance with related party transaction policy and/or mandate, including transactions or situations that warrant timely internal and regulatory disclosures and appropriate review and reporting.

To this end, the audit committee should ensure that management establishes a comprehensive framework for the purposes of identifying, evaluating, approving, reporting and monitoring such situations and transactions. It is essential to ensure that the framework put in place enables related party transactions and conflict of interest situations to be brought to the attention of the audit committee for its consideration and immediate action.

Key factors which must be addressed by the audit committee in its oversight of conflict of interest situations and related party transactions are as follows:

- nature of conflict of interest situations, areas of concern, and the impact on the company;
- identification of the interested and related parties as well as the nature of such potential transactions; and
- whether the related party transactions are in the best interest of the company, and whether the necessary controls and/or safeguarding measures are in place in the management of conflict of interests, as well as the corrective and/or remedial actions to be taken in respect of each of the conflict of interests situations, to ensure that interested parties and related parties do not abuse their powers to gain an unfair advantage.

[6] An entity is related to a reporting entity if it has control or joint control over the reporting entity; has significant influence over the reporting entity; or is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
[7] A substantial shareholder is a person who has not less than 5% of the voting shares in the company.

In undertaking an assessment on the conflict of interest situations or the related party transactions, audit committees may be guided by the following considerations:

- Are the terms of the transaction (including the price) fair, reasonable and on normal commercial terms?
- What impact will the transactions have on the financial statements?
- Are there business reasons or economic substance for the company to enter into the transaction with the related party and not a third party?

Examples of matters to be tabled to the audit committee on related party transactions are outlined in **Appendix III** of this **Pull-out**.

In addition, it is important for the audit committee to look into transactions that do not neatly fall within the definition of a related party transaction as stated in **Chapter 10 of Bursa Securities Listing Requirements** but may still involve a certain level of conflict of interest due to the close proximity (e.g. relationship) of the counterparties with individuals (such as employees) within the listed issuer who are involved in the transactions.

In certain instances, the audit committee may also be faced with the possibility of undisclosed conflict of interest situations or related party transactions. Hence, it is important for the audit committee to ensure that the comprehensive framework mentioned above is able to identify questionable transactions or potential conflict of interest situations or related party transactions. For this purpose, the audit committee should request management to provide the following information:

- background information on the company's trading partner and transacting parties;
- information on the trading partners' directors and substantial shareholders;
- identity of related parties;
- information about the key business partners, major customers, major suppliers and parties to key contracts; and
- salient terms or arrangements of the transactions.

Assessment of internal control environment

The audit committee must determine whether management has implemented effective and adequate internal controls to preserve the company's value creation. The internal control framework of a company should address the following inter-related components:

Control environment	This sets the tone and culture of the company. It is the foundation of all aspects of internal controls, providing discipline and structure. It includes the integrity, ethical values and competency of the personnel.
Risk assessment	Identifies and analyses relevant risks that prevent the company from achieving its objectives and forms the basis for determining how those risks should be managed.
Control activities	These are the policies and procedures that help ensure the necessary actions are taken to address risks impeding the achievement of the company's objectives, and maintaining these risks within an acceptable risk appetite.
Information and communication	Identifies, captures and communicates information in a form and timeframe that enables personnel to carry out their responsibilities.
Monitoring activities	Assesses the performance of the control system on a continuing basis.

It is important to note that the design of internal controls in silos and without reference to their associated risks can lead to an imbalance and consequently, certain key risk areas may be left unaddressed. It is thus imperative for the internal control system to be embedded in the operations of the company and be capable of responding quickly to evolving business risks, whether they arise from factors within the company or from changes in the business environment. Succinctly put, the internal control system should form an integral part of the company's day-to-day business processes.

Given the evolving nature of risks in the marketplace and the dense agenda of the audit committee, it is also increasingly regarded as a better practice for companies to have a separate board-level committee, namely, risk management committee to provide dedicated oversight on risk management matters. In assessing the company's risk management framework and policies, the board committee overseeing risk management matters should, amongst others, consider the following:

- the principal risks and the process of identification, evaluation and management of the principal risks;
- the alignment between risk management execution and the implementation of the company's overall strategy;
- the alignment of remuneration to risk taking and risk management;
- the effectiveness of measures deployed by management to address those risks (i.e. accept, avoid, transfer or mitigate the risks);
- corrective measures undertaken to remedy failings and/or weaknesses;
- ability of the company to meet changes in significant risks and respond to constant changes to the business and/or external environment;
- scope and quality of management's ongoing monitoring of risks and robustness of the risk management process;
- communication and monitoring of risk assessment results to the board; and
- actual and potential impact of any failing or weakness, particularly those related to financial performance or conditions affecting the company.

Considerations on risk management and internal control system are covered in detail in the write-up to **Practices 10.1 and 10.2**. Discussion on the establishment of a risk management committee is provided in write-up to **Step Up 10.3**.

Evaluation on internal audit

Each listed issuer by virtue of **paragraph 15.27 of Bursa Securities Listing Requirements** is required to establish an internal audit function that reports directly to the audit committee. This function serves as an important source of advice for the audit committee by bringing an objective and disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.

The internal audit function which can either be performed in-house or outsourced, including outsourced to group internal auditors (i.e. internal auditor of the holding company or subsidiary of the holding company) must be premised on the requirements of an **"independent and objective" function**. At all times, the audit committee should ensure that the internal audit function has a reporting line to the audit committee, which allows the internal auditors to operate independently of management so as to ensure their analyses, judgements and reports are free from bias or undue influence. The audit committee should be responsible for deciding on the appointment and removal as well as the performance evaluation and remuneration of those in the internal audit function. The internal audit function should also be accorded with direct and unrestricted access to information, records, physical properties and personnel to enable it to fulfil its mandate.

The audit committee should be involved in deciding the **remit of the internal audit function** including its objectives, strategies, roles and responsibilities, scope and remuneration. In order to position and formalise the internal audit function, a mandate in writing (i.e. the internal audit charter or terms of reference) should be established and approved by the audit committee.

In undertaking a review of effectiveness of the internal audit function, the audit committee should satisfy itself that the quality, experience and expertise of the function is appropriate for the business of the company. The audit committee should also consider the actions that management has undertaken to implement the recommendations of the function and whether these properly support the effective working of the internal audit function.

Considerations relating to the internal audit function are covered in detail in the write-up to **Practices 11.1 and 11.2**.

Evaluation on external audit

External auditors play a vital role in the process of accountability to shareholders. Their primary role is to form an opinion on the financial statements of the company, including accounting and other records relating to those financial statements and thereafter report to the shareholders in general meetings. In their course of work, they may identify and, where appropriate, quantify the financial risk that may result in adjustments to the financial statements.

As stated in **paragraph 15.12(2) of Bursa Securities Listing Requirements**, the audit committee is required to recommend the nomination of a person or persons as external auditors.

The audit committee's recommendation on the appointment of external auditors should be based on an assessment of the independence and capabilities of the external auditors as well as the effectiveness of the audit process. **Paragraph 15.21 of Bursa Securities Listing Requirements** outlines the factors (shown below) that a listed issuer must consider, among others, in appointing an external auditor:

- Adequacy of the experience and resources of the accounting firm
- Persons assigned to the audit
- Accounting firm's audit engagements
- Size and complexity of the listed issuer's group being audited
- Number and experience of supervisory and professional staff assigned to the particular audit

In the event of removal or resignation of the external auditors, it is imperative for the audit committee to look into the reasons thereof, especially when the impending removal or resignation arises from an inability to resolve contentious matters that affect financial reporting.

Paragraph 15.22 of Bursa Securities Listing Requirements stipulates where external auditors are removed from office or give notice to the listed issuer of their desire to resign as external auditors of listed issuer, the listed issuer must forward to the Exchange a copy of any written representations or statement of circumstances connected with the resignation made by the external auditors at the same time as copies of such representations or statement of circumstances are submitted to the Registrar pursuant to **section 284 of Companies Act**.

In overseeing the external audit process, **paragraph 15.12(1)(a)-(d) of Bursa Securities Listing Requirements** states that the audit committee must review with the external auditor - the audit plan, external auditor's evaluation of the system of internal controls, audit report and assistance given by the employees of the listed issuer to the external auditor.

The audit committee needs to be aware of the scope and approach of the external audit. Whilst the audit plan is the external auditor's responsibility, it is important that the audit committee fully understands the plan. At the start of each annual external audit cycle, the audit committee needs to consider the external auditor's overall strategy, including planned levels of materiality and proposed resources to execute the external audit plan, and evaluate whether it is consistent with the scope of the external audit engagement.

In order to accomplish this effectively, the audit committee should perform the following:

- discuss with the external auditor before the audit commences, the nature and scope of the audit, including the terms as detailed in the external auditor's engagement letter. This will clarify the responsibilities of the company and the external auditor and other logistical matters; and
- study and evaluate the audit plan, especially the approach to be deployed by the external auditor.

The elements encapsulated in a typical audit plan are outlined below:

- scope of the audit, timing of the audit and reporting deadlines;
- audit team;
- key areas of business risk and significant transactions for the group, as appropriate;
- major accounting systems and systems of internal control to be reviewed;
- extent of planned testing of controls;
- areas where contention may arise;
- nature and extent of audit procedures to be performed, including materiality level;
- identification or anticipation of significant changes for the financial report as a result of new or revised accounting policies and/or regulatory requirements;
- locations to be visited and audit procedures to be undertaken in respect of those locations not visited;
- liaison with subsidiaries' auditors on consolidation of financial statements;
- coordination with internal audit to avoid duplication of efforts and to optimise audit efficiency;
- the extent to which the planned audit scope can be relied upon to detect errors or irregularities (i.e. fraud); and
- frequency of meetings with the audit committee and any reports or other deliverables the audit committee and management are likely to receive.

Following the audit and before signing off the auditor's audit report in the financial statements, the external auditor would normally present the following to the audit committee:

- a report, detailing the results and significant findings from the audit;
- the external auditor's audit report which notably includes opinion relating to the financial statements and key audit matters; and
- a management letter concerning improvement measures that management should consider pertaining to weaknesses or deficiencies in the internal control system.

In this regard, the audit committee should request the external auditors to present their findings on internal control weaknesses noted during the financial audit and highlight findings which are disputed by management or where management has not agreed to implement corrective actions which would rectify the reported weaknesses.

As part of an ongoing monitoring process, the audit committee should review the management letter issued and consider management's responsiveness to the external auditors' findings and recommendations, particularly on internal control deficiencies that need to be addressed.

Considerations relating to the oversight of external auditors by the audit committee are covered in detail in the write-up to **Practices 9.2 and 9.3**.

SECTION III Communication on audit, risk management and control

Pursuant to **paragraph 15.15(1) and (2) of Bursa Securities Listing Requirements**, a listed issuer must ensure that its board of directors prepare an audit committee report at the end of each financial year and clearly set it out in the annual report. The audit committee report must contain, at the very least, the following information as stated in **paragraph 15.15(3) of Bursa Securities Listing Requirements**.

Paragraph 15.15(3) of Bursa Securities Listing Requirements

Audit committee report

The audit committee report must include the following:

(a) the composition of the audit committee, including the name, designation (indicating the chairman) and directorship of the members (indicating whether the directors are independent or otherwise);

(b) [deleted]

(c) the number of audit committee meetings held during the financial year and details of attendance of each audit committee member;

(d) a summary of the work of the audit committee in the discharge of its functions and duties for that financial year of the listed issuer and how it has met its responsibilities; and

(e) a summary of the work of the internal audit function.

Note: As stated in Paragraph 2, Appendix 4 of Bank Negara Malaysia's Policy Document on Corporate Governance, financial institutions are required to disclose the attendance of each director at board and board committee meetings during the financial year and discuss the roles and responsibilities of the board and the board committees.

The audit committee report should describe relevant significant issues in a concise and understandable form, tailored to the specific circumstances of the listed issuer. Merely disclosing the audit committee's terms of reference or charter without describing how the committee actually carried out its roles and responsibilities during the financial year would not be particularly useful for stakeholders.

In addition to the audit committee report, **paragraph 15.26(b) of Bursa Securities Listing Requirements** requires the board of the listed issuer to provide a **statement about the state of risk management and internal control** of the listed issuer as a group. The statement should contain sufficient and meaningful information needed by stakeholders to make an informed assessment of the main features and adequacy of the listed issuer's risk management and internal control system. Further, **paragraph 15.23 of Bursa Securities Listing Requirements** provides for the external auditors to review the statement made by the board of directors of a listed issuer, with regard to the state of risk management and internal control of the listed issuer and report the results thereof to the board of directors of the listed issuer.

It is also important to note that the chairman of the audit committee should be present at the annual general meeting to answer questions on the audit committee's activities and on matters that are within the scope of the audit committee's responsibilities.

Practices & Step Ups

Chairman of the Audit Committee

MCCG Intended Outcome 9.0
There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.

The company's financial statement is a reliable source of information.

MCCG Practice 9.1
The Chairman of the Audit Committee is not the Chairman of the board.

WHY? The case for change

Whilst all directors have a duty to act in the best interests of the company, the audit committee has a specific role which is to provide objective oversight in the areas of financial reporting, related party transactions and conflicts of interest, internal control environment, internal audit and external audit processes.

This need for objectivity is particularly imperative for the chairman of the audit committee as the effectiveness of the committee is often dependent on his or her leadership. The chairman is expected to demonstrate courage to deal with tough issues and support other members to do the same, especially in probing management on areas where subjectivity is inherent (e.g. choice of accounting policies and estimates made in arriving at the figures recorded in the financial statements).

Recognising the need for objectivity amongst audit committee members, regulators have placed a heightened focus on the composition of this committee with an emphasis on its chairman, as shown below:

Paragraph 15.09(1)(a) and (b) of Bursa Securities Listing Requirements

A listed issuer must appoint an audit committee from amongst its directors which fulfils the following requirements:

(a) the audit committee must be composed of not fewer than 3 members; and

(b) all the audit committee members must be non-executive directors, with a majority of them being independent directors.

Paragraph 15.10 of Bursa Securities Listing Requirements

The members of an audit committee must elect a chairman among themselves who is an independent director.

In addition to being independent, it is of paramount importance for the chairman of the audit committee to be distinct from the chairman of the board. Having these positions assumed by the same person may impair objectivity of the board's review of the audit committee's findings and recommendations.

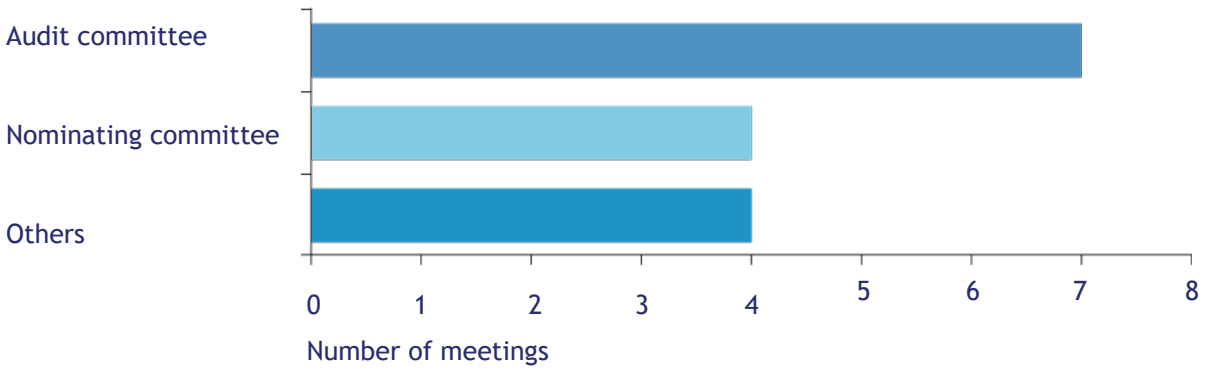
This Practice is also aligned with **Practice 1.4 of MCCG** which stipulates that the board chairman should not be a member of the audit committee, nomination committee and remuneration committee. A slew of corporate failures and scandals spanning almost all continents focus on the political and regulatory attention on the audit profession and the serious corporate governance failings within the audit function and oversight by the board. These include the collapse of Carillion, Patisserie Valies and London Capital & Finance in the UK, as well as failings in Transnet, Eskom, and South African Airway in South Africa, and multiple recent corporate scandals in Malaysia. Such scandals and failures raise questions about the objectivity of the board's oversight on the company's audit practices and procedures.

Such a situation may also potentially lead to concentration of power in a single director. The need for financial institution to maintain a distinction between the chairman of the board and chairman of the audit committee is enumerated in **Standard 12.4 of Bank Negara Malaysia's Policy Document on Corporate Governance** which states that "to promote robust and open deliberations by the board on matters referred by the board committees, the chairman of the board must not chair any of the board committees".

In addition, the separation of these two positions is necessary to enable the chairman of audit committee to devote sufficient time to the affairs of the committee. Being the chairman of the board and board committee would result in the said director being subjected to additional responsibilities, thus, making the performance of his or her duties fairly onerous.

In tandem with global trends, audit committees continue to be the most time-consuming committee in corporate Malaysia. A review of the 2020 annual reports across the top 50 listed issuers (by market capitalisation as at 31 March 2021) revealed that audit committees averaged 7 meetings a year compared to nominating committees (4 meetings) and other board sub-committees (4 meetings)[1].

Average Number of Meetings Held by Board Committees



[1] Intelligence of KPMG Management & Risk Consulting Sdn Bhd, 2021

Audit committees are often tasked with not only overseeing a company's financial reporting and internal controls, but also a gamut of other responsibilities which include oversight of risk, compliance and corporate governance matters.

The need for audit committee members to be apprised of relevant developments also demands additional time and professional commitment. Over the recent years, there have been major developments in the accounting and auditing landscape, such as the amendments to accounting standards, which necessitate continuous professional development.

HOW? The practice in substance

In structuring its audit committee, the board should ensure that the chairman of the audit committee is distinct from the chairman of the board. The company's board charter and the audit committee's terms of reference should set out the separation between the roles of the board chairman and the chairman of the audit committee.

In addition, as stated in **paragraph 15.10 of Bursa Securities Listing Requirements**, the chairman of the audit committee must be an independent director.

Key considerations relating to the application of this Practice are discussed below:

What are the key responsibilities of an audit committee chairman?

An audit committee chairman is responsible for setting the tone and work style of the committee, as well as ensuring that audit committee meetings run efficiently and that the agenda is designed to ensure the committee's effectiveness. The committee chairman is often the key contact between the committee members and members of the board, as well as senior management and the auditors. Responsibilities of an audit committee chairman, amongst others, are as below[2]:

- **Leadership**
  - Sets the tone of dedication, being informed and probing, as well as independent and not shying away from holding management accountable.
  - Ensures participation and engagement from all committee members and promotes formal and informal communication amongst committee members.
  - Pursues engagement with management and auditors, between committee meetings, to ensure all relevant issues are identified and addressed by the committee.
- **CFO support**
  - Develops a strong and professional, trust-based, relationship with CFO.
  - Participates in informal sessions with CFO, focused on between-meeting developments.
  - Helps CFO to maintain focus on long-term sustainable performance rather than short-term earnings targets.
  - Assists CFO to ensure adequate resources and bench-strength across the finance function.

[2] *The role of the audit committee chair* 2019, KPMG

- **Alignment with board and other board committees**
  - Ensures risk oversight activities of the board and other board committees are well coordinated with the audit committee, especially when the company has additional board committees with oversight of risk, i.e. risk committee, technology committee.
- **Clarity in expectations for internal and external auditors**
  - Ensures the audit committee devotes sufficient time and consideration to the nomination, removal and resignation of the external auditor.
  - Clarifies the role of the internal audit, including ensuring a shared vision by the audit committee and CEO on the role of the internal audit function.
  - Develops a constructive relationship with the head of internal audit.
- **Conflict of interests**
  - Ensure the audit committee is able to identify any conflict of interests or potential conflict of interests situation that may arise within the listed issuer or group, and conduct the necessary assessment and inquiry when warranted, as part of the process in the review of conflict of interests matter. Conflict of interests situations should include but not be confined to conflict of interests in the context of related party transactions only. **Paragraph 15.12(1)(h) of Bursa Securities Listing Requirements** outlines that the audit committee should review any related party transaction and conflict of interests situation that may arise within the listed issuer or group including any transaction, procedure or course of conduct that raises questions of management integrity, and report the same to the board.
  - Together with the audit committee, ensure policies and procedures are in place to ensure proper disclosure of conflict of interests or reporting of conflict of interests.
  - Coordinate with the nominating committee or any relevant board committees in the review of conflict of interests.
- **Agenda setting**
  - Focuses on quality of financial accounting, corporate reporting, and effective internal controls.
  - Aligned with the committee's roles and responsibilities, as outlined in its terms of reference, while also ensuring flexibility to discuss emerging issues.
  - Includes dedicated time, i.e. "white space", at the beginning of each meeting for members to reflect on the agenda and allocated time, and meeting materials
  - Incorporates a deep dive into important areas of risk, accounting policy, judgement estimate.
  - Streamlines committee's responsibilities to prevent taking on too much responsibility beyond core responsibilities of which members' skills are aligned to.

- Ensures audit committee is equipped with the necessary resources for its effective outworking.
- Encourages periodic reviews of the audit committee terms of reference.

- **Meeting quality**
  - Ensures timeliness in distribution of meeting materials. The audit committee can be guided by the **Guidance to Practice 1.6** which outlines that directors should receive information and materials required for the meeting at least five business days in advance of the board meeting.
  - Encourage members to seek clarification on additional information in advance, to optimise discussion time at meetings.
  - Balances presentation time with time spent on meaningful discussion and debate.
  - Ensures attendance of relevant invitees, such as, CFO and head of internal audit.
  - Calls for private sessions between audit committee and head of internal audit and external audit partner to deliberate on matters such as management's corporate reporting and control, resources and relationships.

What are some of the key attributes of an effective audit committee chairman?

The chairman of the audit committee should be recognised for his or her leadership and vision, and be acknowledged by other committee members and management as being able to set and manage the audit committee's agenda.

Attributes of an effective audit committee chair (non-exhaustive):

- an independent, proactive leader with confidence and integrity;
- a highly respected and experienced board member, who possesses strong financial literacy skills and time available to develop and closely monitor the committee's agenda;
- a person with an excellent working knowledge of audit committee practices;
- a good listener and communicator who can facilitate successfully;
- a person who is able to champion open and frank discussion with discipline; and
- a person who is tenacious and prepared to ask the tough questions.

Can the chairman of the audit committee chair another board committee within the same company?

There are no restrictions for the chairman of the audit committee to chair another board committee within the same company as possibilities of conflicts of interest are minimal under normal circumstances.

In some instances, companies may find it value-adding for the chairman of the audit committee to chair another board committee, given the synergies that are involved between these two committees (e.g. audit committee and risk management committee or in the case of some financial institutions, audit committee and financing committee).

However, as mentioned above, the board should be cognisant of the workload of the audit committee chairman in deciding if he or she can assume the chairmanship of another board committee without compromising the standard of work performed.

Further reflection

Just as it is important for the audit committee to be aligned with the board, the audit committee should also pursue communication and coordination with other board committees to facilitate the optimal allocation and coverage of topics covered by each committee. The diagram on the following page outlines topics which the audit committee chairman should promote coordination and dialogue on with other board committees.

Furthermore, with the growing complexities of board responsibilities and the ever more challenging business and risk environments, boards are delegating oversight duties to a larger number of board committees. As such, the audit committee chairman should pay consideration to the nature of interactions between the audit committee and the other committees formed by the board.

Nominating Committee

- Coordinating on skills and experience needed for the audit committee to carry out its responsibilities effectively

Remuneration Committee

- Understanding of risks that remuneration policies and procedures may bear on financial statements and internal controls
- Understanding of management and employee rumuneration plans and how related metrics impacts fraud risks

Coordination and communication between audit committee and other board committee

Additional Consideration

- Prevents overlapping oversight responsibilities (i.e. cybersecurity may be covered by both audit committee and also a risk committee for instance)
- Ensures important information is shared across the various board committees
- Avoids a “default mentality” where directors or board committees assume the audit committee has sole responsibility for specific risks

Case Study: Nissan Motor Co Ltd (Japan)

Background:	• Carlos Ghosn was the Chairman of Nissan, before he was fired from his position in 2018 following a criminal case against him on underreported remuneration, misused company money and the funnelling of millions of dollars into secret, off-shore entities for his own benefit[3].

Facts:	• In Japan, listed companies are required to disclose, in annual reports, an executive's compensation when it exceeds JP¥ 100 million (approximately USD 800,000). However, Nissan's CFO has not included Ghosn's deferred compensation arrangement that he would receive after his retirement, which comes up to almost USD 44 million, in the company's annual reports.
	• This raised questions about the role of Nissan's independent auditors in ensuring disclosures in its annual reports accurately reflected compensation records of its top executives.
	• Here, there are three points which stand out.
	  ∘ Nissan did not have an audit committee to appoint the external auditor and review audit procedures. The external auditor was chosen by the company's chairman, subject to the board's approval.
	  ∘ Nissan's board was not equipped with a remuneration committee to decide on the board and senior management's remuneration, where Ghosn played a role in determining his own compensation.
	  ∘ Nissan's board did not establish a nominating committee, and independent directors were chosen by the chairman, subject to the board's approval[4].

Lessons Drawn:	• The audit committee is an integral component of a company's corporate governance, particularly in its role of appointing the external independent auditor. As such, a high level of importance needs to be placed on the composition of the audit committee, particularly its chairman, to ensure that the committee functions in an independent and objective manner. • The separation of the board chairman from audit committee chairman position is able to prevent deliberations and decision-making related to the company's audit from being dominated by a single individual, and promotes the board's oversight on the effectiveness of the audit committee. • The objectivity of the audit committee chairman is further stressed in the audit committee's relationship with other board committees, to facilitate an effective corporate governance ecosystem within the firm.

[3] *Ex-boss Carlos Ghosn used company money for private events*: Nissan 2020, Kyodo News
[4] *Pozen, R.C 2018, Carlos Ghosn, Nissan, and the need for stronger corporate governance in Japan*, Harvard Business Review

WHERE? Regional/International perspectives

As in the case of Malaysia, jurisdictions such as Australia and United Kingdom have enumerated prescriptions for the chairman of the audit committee to be distinct from the chairman of the board in order to enable the audit committee chairman to give full commitment and exercise independent judgment.

Country	Provision(s)

Australia	The board of a listed entity should:
	• have an audit committee which:
	  ∘ has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and
	  ∘ is chaired by an independent director, who is not the chair of the board **(Extract of Recommendation 4.1)**.

Country	Provision(s)
South Africa	When determining which of its committees the chair of the governing body should serve on, either as member or chair, the governing body should consider how this affects the overall concentration and balance of power on the governing body. Generally, the following should apply: • The chair should not be a member of the audit committee **(Extract of Recommended Practice 36 of Principle 7)**
United Kingdom	The board should establish an audit committee of independent non-executive directors, with a minimum membership of three, or in the case of smaller companies, two. The chair of the board should not be a member. The board should satisfy itself that at least one member has recent and relevant financial experience. The committee as a whole shall have competence relevant to the sector in which the company operates **(Provision 24)**

Oversight of External Auditors by the Audit Committee

MCCG Intended Outcome 9.0
There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

MCCG Practice 9.2
The Audit Committee has a policy that requires a former partner of the external audit firm of the listed company[1] to observe a cooling-off period of at least three years before being appointed as a member of the Audit Committee.

MCCG Practice 9.3
The Audit Committee has policies and procedures to assess the suitability, objectivity and independence of the external auditor to safeguard the quality and reliability of audited financial statements.

WHY? The case for change

An audit has value to financial statement users because it is performed by a competent third party who is viewed as having no interest in the financial success of the company[2]. Investors take comfort in the fact that independent professionals have performed the required procedures and have a reasonable basis for the opinion that they render in the financial statements.

Given that audit quality is integral to the informed decision-making of investors, safeguards should be put in place to preserve the integrity and credibility of the audit process. A high level of scrutiny is also increasingly being placed by stakeholders on the work of external auditors. Independent audit regulators across the globe are now increasingly focusing on the drivers of audit quality via their inspection efforts. The Global Annual Survey of Audit Inspection 2021 by the International Forum of Independent Audit Regulators revealed that whilst there is a general decline in the inspection findings, there is a continuing need for external audit firms to make continued efforts to address the high level of findings and inconsistencies. On the local front, Securities Commission Malaysia's Audit Oversight Board ("AOB") introduced annual transparency reporting for firms that audit public interest entities in Malaysia to outline details that include the audit firm's governance and leadership structure as well as measures undertaken by the firm to uphold audit quality and manage risks[3].

[1] This applies to all former partners of the audit firm and/or the affiliate firm (including those providing advisory services, tax consulting etc.)
[2] *Concept release on auditor independence and audit firm rotation* 2011, Public Company Accounting Oversight Board of United States
[3] Audit Oversight Board registered firms that for two years in a row have more than 50 public interest entity audit clients with combined market capitalisation of above RM10 billion are required to publish an Annual Transparency Report (in respect of the financial year ended 31 December 2020 onwards). For audit firms that subsequently fail to meet the stated criteria above for two consecutive calendar years, these audit firms are encouraged to continue with transparency reporting. For all other audit firms, adoption of annual transparency reporting is encouraged *(Source: Annual Transparency Reporting for Firms that Audit Public Interest Entities in Malaysia 2019, Securities Commission Malaysia)*.

Further reflection

In Malaysia, the AOB conducts inspections on registered audit firms and individual auditors of public interest entities and schedule funds on a regular basis. Inspections involve an assessment of the degree of compliance by auditors with auditing and ethical standards applicable in Malaysia as well as the quality of the auditor's reports relating to the audited financial statements of public interest entities and schedule funds. As gathered from AOB's Annual Inspection Report 2020, the top five common findings observed from the AOB's inspections over a three-year period are illustrated below:

2020	2019	2018
Sampling	Sampling	Sampling
Accounting estimates	Accounting estimates	Accounting estimates
Auditor's report/ Revenue recognition	Auditor's report	Auditor's report
Fraud procedures/ Presentation and disclosure	Fraud procedures	Engagement quality control review
Inventory procedures	Group audits	Group audits/ Revenue recognition

In providing further clarity, it was stated in the AOB's Annual Inspection Report 2020 that some of the common root causes which led to these deficiencies included the absence or lack of professional scepticism among auditors in executing the audit, particularly in assessing the reliability of documents, responses to inquiries and other information obtained from management or those charged with governance throughout the audit. In addition, it was gathered that the aforementioned common findings were mostly caused by insufficient understanding or appreciation for the requirements of International Standards on Auditing and relevant accounting standards.

Recognising that promoting audit quality is not within the sole purview of external oversight bodies, regulators have also placed audit governance responsibilities on the audit committee, including in the selection and evaluation of the external auditor.

To this end, **Bursa Securities Listing Requirements** call upon audit committees to be proactive in overseeing the external audit process including the appointment of the external auditor.

Paragraph 15.12 of Bursa Securities Listing Requirements

Functions of the audit committee

Without limiting the generality of paragraph 15.11 above, a listed issuer must ensure an audit committee, amongst others, discharges the following functions:

(1) review the following and report the same to the board of directors of the listed issuer:

- (a) with the external auditor, the audit plan;
- (b) with the external auditor, his evaluation of the system of internal controls;
- (c) with the external auditor, his audit report;
- (d) the assistance given by the employees of the listed issuer to the external auditor;
- (e) any letter of resignation from the external auditors of the listed issuer;
- (f) whether there is reason (supported by grounds) to believe that the listed issuer's external auditor is not suitable for re-appointment; and

(2) recommend the nomination of a person or persons as external auditors.

Note: Extract of paragraph 15.12 of Bursa Securities Listing Requirements pertaining to external auditor requirements.

Paragraph 15.21 of Bursa Securities Listing Requirements

External auditor

In appointing an external auditor, a listed issuer must consider, among others –

- (a) the adequacy of the experience and resources of the accounting firm;
- (b) the persons assigned to the audit;
- (c) the accounting firm's audit engagements;
- (d) the size and complexity of the listed issuer's group being audited; and
- (e) the number and experience of supervisory and professional staff assigned to the particular audit.

In exercising its oversight functionalities over the external audit process, the audit committee is also empowered to have direct access to the external auditors as and when needed.

Paragraph 15.17 (d) and (f) of Bursa Securities Listing Requirements

Functions of the audit committee

A listed issuer must ensure that wherever necessary and reasonable for the performance of its duties, an audit committee must, in accordance with a procedure to be determined by the board of directors and at the cost of the listed issuer –

- have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity; and
- be able to convene meetings with the external auditors, the person(s) carrying out the internal audit function or activity or both, excluding the attendance of other directors and employees of the listed issuer, whenever deemed necessary

*Note: Extract of **paragraph 15.17 of Bursa Securities Listing Requirements** pertaining to external auditor requirements.*

Similar provisions are also encapsulated for licensed financial institutions in **Bank Negara Malaysia's Policy Document on Corporate Governance** with the audit committee being required to foster a quality audit of the licensed financial institution. In exercising oversight over the external auditor, the audit committee of licensed financial institutions should take cognisance of the expectations and qualification requirements of the external auditor as set out in the **Bank Negara Malaysia's Policy Document on External Auditor**.

HOW? The practice in substance

In assessing the suitability, objectivity and independence of the external auditor, the audit committee should establish policies and procedures which cover all aspects of the audit service provided by the audit firm.

The audit committee's recommendation on the appointment of an external auditor should be based on an assessment of the independence and capabilities of the external auditor as well as the effectiveness of the audit process.

Key considerations relating to the application of these Practices **(Practices 9.2 and 9.3 of MCCG)** are discussed on the following page.

What are policies and procedures that can be put in place by an audit committee to assess the suitability (in terms of capabilities, objectivity and independence) of the external auditor?

Examples of policies and procedures (non-exhaustive) that can be established by the audit committee in this regard are outlined below:

Examples of policies:

- Having in place a policy on the appointment, re-appointment and removal of external auditor (including selection and qualification criteria)[4].
- Establishing a policy on the types of non-audit services that are prohibited and limits to the level of fees for non-audit services rendered by the external auditor.
- Having in place a policy to govern the appointment of all former partners of the audit firm and/or the affiliate firm as a member of the audit committee and/or employee.

Examples of procedures:

- Obtaining written 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.
- Developing a list of audit quality indicators by the audit committee to monitor effectiveness of the external audit process. Examples of such indicators may include:
    - adequacy of audit scope;
    - ability of the external audit firm to meet audit deadlines;
    - timeliness in escalating audit issues to the audit committee;
    - allocation of resources to significant audit risk areas; and
    - effectiveness of the external audit firm's recommendations in addressing weaknesses observed during previous audits, particularly on internal controls relevant to financial reporting process.
- Performing an annual evaluation on the performance of the external auditor and undertaking follow-up measures thereafter *(note: a sample exhibit on the evaluation of external auditor is provided in **Appendix II** of this **Pull-out**).*

[4] ***Paragraph 15.21 of Bursa Securities Listing Requirements*** outlines the considerations in appointing an external auditor.

What are the salient areas that should be considered in evaluating an external audit firm's capabilities to conduct the audit?

In evaluating the external auditor's capabilities in relation to its expertise, experience, network and reputation, the audit committee should give consideration to a range of factors as set out below.

Relevant considerations in evaluating an external audit firm's capabilities (non-exhaustive):

- the audit firm's reputation and its presence in the industry;
- qualifications of its professionals, including the breadth and depth of resources and experience of the team members;
- networking ability and competency to address overseas subsidiaries not audited by the firm (i.e. its liaison capability with the secondary auditors);
- audit methodology employed by the firm such as the underlying methodology and materiality used to determine the nature, extent and timing of testing required;
- the internal quality control processes in place (e.g. independent quality control review and approach to audit judgments); and
- how the audit firm delivers value other than through the provision of the statutory audit report.

In addition, the audit committee should also consider information presented in the Annual Transparency Report of the external audit firm for which the minimum content would include the following[4]:

Legal and governance structure

- Legal and ownership structure
- Governance and leadership structure
- Network and structural arrangements
- Disclosure on partners with substantial equity in the partnership
- Disclosure on family relationship between partners undertaking leadership role or holding substantial equity in the partnership with other partners of the external audit firm

[4] AOB's Annual Inspection Report 2020

Measures undertaken by the external audit firms to uphold audit quality and manage risks
• Firm's systems of quality controls • Accountability framework for partners • Compliance monitoring • Risk management process

Information on the external audit firm's measurement of indicators for audit quality comprising 15 indicators to be disclosed relating to:
• Audit partner workload • Auditor independence • Capacity and competence of the firm • Audit engagement supervision • Firm's investments to uphold quality • Monitoring reviews on quality

If the external audit firm is not required to issue an Annual Transparency Report, the audit committee is encouraged to engage the audit firm on matters typically covered in an Annual Transparency Report including the audit firm's governance and leadership structure as well as measures undertaken by the firm to uphold audit quality and manage risks.

How can the audit committee institute policies and procedures to avert potential threats to an external auditor's independence?

Two key issues that commonly bear on the external auditor's independence are the provision of non-audit services as well as the appointment of all former partners of the audit firm and/or the affiliate firm (entities that are related to the audit firm including those providing advisory services, tax consulting etc.) as a director or an employee of the company who is in a position to exert significant influence over the preparation of financial statements.

As mentioned above, the audit committee should put in place policies and procedures to aid in the safeguarding of the external auditor's independence and objectivity, taking into consideration relevant professional and regulatory requirements. The policies and procedures should provide adequate coverage on the aspects of provision of non-audit services as well as appointment of former partners of the audit firm and/or the affiliate firm (as elaborated below):

Provision of non-audit services

Provision of non-audit services by the external auditor to a company may result in misaligned incentives. In such instances, external auditors may be exposed to the possibility of reviewing part of their own work or have their objectivity challenged by over-reliance on the fee generated and the familiarity developed with the company.

Appointment of former partners of the audit firm and/or the affiliate firm

There may be serious concerns to objectivity when a member of the audit firm and/or the affiliate firm joins the company (the audit client) and is in a position to exert significant influence over the preparation of the company's financial statements.

i) Provision of non-audit services

Prior to the provision of any non-audit services by the external auditor, the audit committee should review and approve the acceptance of such engagements, drawing guidance from the **By-Laws (on Professional Ethics, Conduct and Practice) by the Malaysian Institute of Accountants ("MIA")**. If the non-audit service results in concerns on independence to an extent that they cannot be reduced to an acceptable level by the application of safeguards, the non-audit service shall not be accepted.

Examples of non-audit services that shall not be provided by the external auditors of a public interest entity pursuant to the **By-Laws (on Professional Ethics, Conduct and Practice) by the MIA** are outlined below.

Prohibited non-audit services (non-exhaustive)[5]:

- **accounting and bookkeeping services**, including payroll services and the preparation of financial statements or financial information;
- **valuation services** if the valuations would have a material effect on the financial statements;
- **preparation of tax calculations** of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries that are material to the financial statements;
- **internal audit services** that relate to a significant part of the internal controls over financial reporting, financial accounting systems or amount or disclosures that are material to the financial statements;
- **design or implementation of information systems** that form a significant part of the internal control or information on financial reporting, accounting records or financial statements;
- acting in an advocacy role on behalf of the company to resolve a **dispute or litigation** when the amounts involved are material to the financial statements;
- **recruiting services** with respect to a director, officer or senior management personnel who would be in a position to exert significant influence over the preparation of accounting records or the financial statements; and
- **corporate finance services** which involve promoting, dealing in, or underwriting shares.

[5] *Section 600 of the By-Laws (on Professional Ethics, Conduct and Practice)* by the MIA

In accordance with **Bursa Securities Listing Requirements**, disclosure should also be made on the nature and extent of non-audit services if the fees on such services are "significant".

Paragraph 18, Part A, Appendix 9C of Bursa Securities Listing Requirements

The content of an annual report must contain the following particulars in relation to the audit and non-audit services rendered to the listed issuer or its subsidiaries for the financial year:

- amount of audit fees paid or payable to the listed issuer's auditors, stating the amount incurred by the listed issuer and the amount incurred on a group basis respectively; and
- amount of non-audit fees paid or payable to the listed issuer's auditors, or a firm or corporation affiliated to the auditors' firm, stating the amount incurred by the listed issuer and the amount incurred on a group basis respectively. If the non-audit fees incurred were significant, details on the nature of the services rendered. If no non-audit fees were incurred, a statement to that effect.

*Note: **Item 9.47A of the Questions and Answers in relation to Bursa Securities Listing Requirements** clarifies that listed issuers should consider the amount of non-audit fees incurred compared to the amount of audit fees paid to determine if the non-audit fee is "significant". Generally, if the non-audit fees constitute 50% of the total amount of audit fees paid to their external auditors, then such non-audit fees are regarded as significant.*

ii) Appointment of former partners of the audit firm and/or the affiliate firm

The circumstances under which former partners of the audit firm and/or the affiliate firm can be appointed to the board or be employed by the company should be governed. There should be stipulations on a cooling-off period to govern the independence of such appointments. An illustrative disclosure highlighting the stipulations on appointing former partners of the audit firm and/or the affiliate firm as members of the company's audit committee or employees is shown on the following page with the following elements outlined:

- responsibility of the audit committee to oversee the policy;
- coverage of policy (i.e. applicable to former partners of the audit firm and/or the affiliate firm and other audit team members); and
- length of cooling-off period established.

Illustrative disclosure

As part of its remit, the audit committee keeps under review the objectivity, independence and effectiveness of the external auditor. The committee has approved a policy on appointment of former partners of the audit firm and/or the affiliate firm and former employees of the external auditor firm, to the company. Under this policy:

- On an ongoing basis, the audit committee agrees with the external auditors which members of the audit team are categorised as "partners of the audit firm and/or the affiliate firm" and "other key team members of the audit engagement team".
- Former partners of the audit firm and/or the affiliate firm will not be offered employment or be appointed as a member of the audit committee by the company or any of its related corporations within three years of undertaking any role on the audit.
- Other key team members of the audit engagement team will not be offered employment or be appointed as a member of the audit committee by the company or any of its related corporations within six months of undertaking any role on the audit.
- Other audit engagement team members who accept employment or are appointed as a member of audit committee by the company or any of its related corporations must cease the audit activity immediately and tender their resignation to the audit firm.

Any offer of employment to a former employee of the audit firm in respect of a senior management position or appointment of the former employee as a member of the audit committee must be pre-approved by the audit committee. Between meetings, the audit committee chairman has the delegated authority to deal with such appointments at his or her discretion. Any such interim approval must be ratified at the next meeting of the committee.

Adapted from KPMG's Audit Committee Institute Handbook 2017

WHERE? Regional/International perspectives

As with Malaysia, audit committees in many jurisdictions including Singapore and United Kingdom are tasked to exercise robust oversight of the external audit process, including in evaluating the suitability and independence of the external auditor.

Country	Provision(s)
Singapore	The duties of the audit committee include: (a) making recommendations to the Board on: (i) the proposals to the shareholders on the appointment and removal of external auditors; and (ii) the remuneration and terms of engagement of the external auditors; (b) reviewing the adequacy, effectiveness, independence, scope and results of the external audit and the company's internal audit function ***[Provision 10.1 (a) and (b)]*** The audit committee does not comprise former partners or directors of the company's existing auditing firm or auditing corporation: (a) within a period of two years commencing on the date of their ceasing to be a partner of the auditing firm or director of the auditing corporation; and in any case, (b) for as long as they have any financial interest in the auditing firm or auditing corporation ***(Provision 10.3)***

Country	Provision(s)
United Kingdom	The main roles and responsibilities of the audit committee should include: • conducting the tender process and making recommendations to the board, about the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor • reviewing and monitoring the external auditor's independence and objectivity • reviewing the effectiveness of the external audit process, taking into consideration relevant United Kingdom professional and regulatory requirements • developing and implementing policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the board on any improvement or action required ***(Extract of Provision 25)*** The annual report should describe the work of the audit committee, including: • the significant issues that the audit committee considered relating to the financial statements, and how these issues were addressed • an explanation of how it has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans;

Country	Provision(s)
United Kingdom	• in the case of a board not accepting the audit committee's recommendation on the external auditor appointment, reappointment or removal, a statement from the audit committee explaining its recommendation and the reasons why the board has taken a different position (this should also be supplied in any papers recommending appointment or reappointment) • an explanation of how auditor independence and objectivity are safeguarded, if the external auditor provides non-audit service ***(Extract of Provision 26)***

Composition and Calibre of the Audit Committee

MCCG Intended Outcome 9.0
There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

Step Up 9.4
The Audit Committee should comprise solely of Independent directors.

Practice 9.5
Collectively, the Audit Committee should possess a wide range of necessary skills to discharge its duties. All members should be financially literate, competent and are able to understand matters under the purview of the Audit Committee including the financial reporting process.

All members of the Audit Committee should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.

WHY? The case for change

Independence and financial literacy are the cornerstone of a well-functioning audit committee. The ability of its members to exercise their judgment in an informed and impartial manner is important to the fulfilment of the audit committee's mandate, especially in overseeing and providing advice to the board on the areas of financial reporting, related party transactions and conflicts of interest, internal control environment, internal audit and external audit processes.

It should be noted that the core functions of audit committees set out in many, if not all, global authoritative governance documents, are expressed in terms of "evaluation", "assessment" or "review" of the aforementioned areas. The undertaking of such responsibilities would naturally necessitate audit committee members to critically and objectively apply a probing view on pertinent matters, particularly in areas which involve a high degree of judgment. In many instances, audit committee members are expected to take tough, constructive, or even unpopular stances, all of which requires sound financial literacy and call for independence in "thought and action".

Research findings indicate that the independence and competence, including financial literacy, of the audit committee have a positive and significant influence on investment decision making, as a result of improved quality of financial reporting, internal control and audit, that increases investor trust[1].

Recognising that objectivity is essential to the proper functioning of the audit committee, regulators have outlined provisions on the composition of the audit committee with due regard to the element of independence.

Paragraph 15.09(1)(a) and (b) of Bursa Securities Listing Requirements

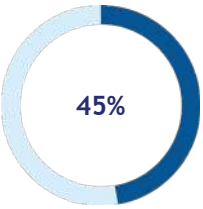
A listed issuer must appoint an audit committee from amongst its directors which fulfils the following requirements:

(a) the audit committee must be composed of not fewer than 3 members; and

(b) all the audit committee members must be non-executive directors, with a majority of them being independent directors.

*Note: Only requirements pertaining to the composition of the audit committee are extracted from the said paragraph. Similar provisions are also applicable for financial institutions under **Standard 12.3 of Bank Negara Malaysia's Policy Document on Corporate Governance**. The requirements in relation to the composition of audit committees for financial institutions are the same as that of other board committees.*

A large number of companies have wholly independent audit committees[2], premised on the proposition that such a committee would be better positioned to perform the functions entrusted to it. A review of annual reports across the top 100 listed issuers (by market capitalisation) in Malaysia as at 31 March 2021 revealed that 45% of them have audit committees which are composed exclusively of independent directors[3].



Companies with wholly independent audit committees in the top 100 listed issuers (by market capitalisation) as at 31 March 2021.

[1] Al-Hadrami, A et al. 2020, *The impact of an audit committee's independence and competence on investment decision: A study in Bahrain*, Asian Journal of Accounting Research
[2] Referring to audit committees comprising wholly of independent directors
[3] Review undertaken by KPMG Management & Risk Consulting Sdn Bhd in 2021

Further reflection

Several research studies have shown that the value of having an audit committee comprising solely of independent directors can be particularly evident when a company is undergoing financial distress.

For example, a prominent research performed by Bronson et.al highlighted that wholly independent audit committees are more likely to protect external auditors' independence during a dispute with management of a financially distressed company. The research highlighted that given the negative consequences associated with a going concern report (an opinion by the auditors that the company may not be viable in the foreseeable future), management may try to pressure the external auditor into not issuing the said report when one is warranted. In such a scenario, having a fully independent audit committee would more likely lead to objective support for the external auditor and mitigate pressure from management relating to the going concern reporting decision. Conversely, audit committees with members who are affiliated with management were found to be more likely in replacing the external auditor in such a circumstance[4].

In the course of establishing a fully independent audit committee, boards are not expected to compromise on the skill sets and make unwieldy changes to the composition of the audit committee. In order to create a conducive environment for insightful deliberations of the audit committee, boards should ensure that the enlisted independent audit committee members are financially literate and have a sufficient understanding of the company's business.

As businesses become more complex, globalised, and increasingly face new risks, the breadth and complexity of the audit committee responsibilities similarly continue to increase. The need for audit committee members to possess sound financial understanding is now made more important than ever by the changes in business models and financial reporting requirements.

[4] Bronson, SN et al. 2009, *"Are fully independent audit committee really necessary?"*, Elsevier

In order to ensure that the audit committee is well-equipped to carry out its mandate, regulators have emphasised the importance of having members with accounting or financial acumen.

Paragraph 15.09(1)(c) of Bursa Securities Listing Requirements

At least one member of the audit committee –

(i) must be a member of the Malaysian Institute of Accountants; or

(ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and –

(aa) he must have passed the examinations specified in **Part I of the First Schedule of the Accountants Act 1967**; or

(bb) 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

(iii) fulfils such other requirements as prescribed or approved by the Exchange.

It is important to note that financial literacy is a prerequisite for each member to deliver tangible value to the functions of the audit committee. Having only a single audit committee member with special knowledge or skills in accounting would place undue reliance on that one individual and render the deliberations of the audit committee ineffective. To this end, the audit committee as a whole should consist of financially literate members who would be able to challenge, encourage and support each other in a more meaningful manner.

HOW? The practice in substance

It is therefore incumbent on the board to assess the composition and calibre independence of its audit committee, and consider establishing a wholly independent audit committee with the range of skills, experience, knowledge and qualifications, that can further strengthen the company's corporate governance practices and processes. Every member's appointment is an occasion for careful deliberation and the board should have a strong understanding of how imperative is independence to the effective functioning of the audit committee, and sound understanding of the language of accounting and finance to the performance of its duties.

Key considerations relating to the application of this **Step up** are discussed below:

How should the independence of the audit committee members be assessed?

As with other independent directors, independent audit committee members should display a strong element of objectivity, both in appearance ("perceived independence") as well as of mind ("independence in thought and action").

In assessing "independence in thought and action", the nominating committee or the board should, amongst others, evaluate if the audit committee members demonstrate vigilance, scepticism and more importantly, have the courage to stand up for an objective point of view.

Characteristics (non-exhaustive) that are commonly exhibited by audit committee members which demonstrate vigilance, scepticism and courage:

- clarifies objectives of the topics for deliberation to understand the issues and set expectations for possible solutions;
- drives for complete and accurate financial and non-financial information disclosures that reflect substance over form which can be issued on a timely basis;
- actively engages internal and external auditors and fosters candid two-way relationship;
- suspends prevailing assumptions and continues to ask questions until satisfactory responses are obtained;
- changes the angle of debate to probe for further information;
- raises any issues or "red flags" promptly with the audit committee chair; and
- leverages on internal and external audit findings to review the way management manages business risks as well as how the risks are managed to enhance shareholder value.

The consideration of independence is often a matter of substance rather than mere compliance with specific rules. The board should also be cognisant and mindful of situations in which the regulatory definition of independence is met, yet impairment of objectivity or perceived conflicts of interest may still arise.

There are four facets of independence which the audit committee must concern itself with:

- The audit committee must be independent from management.
- External auditor's opinions must be solely based on its independent professional judgement, without influence from management.
- The company's internal auditors must be independent from management and report directly to the audit committee.
- The board and management should be independent from vendors or any other third parties, and where personal relationships exists, they must be disclosed and the relevant personnel must recuse themselves from discussions and voting on the matters.

How should audit committee members deal with conflict of interest situations?

Audit committee members should declare any matter in which they have an interest. Normally, the process for recording declarations of conflicts of interest in the audit committee should mirror that used by the board. Each member of the committee should undertake to declare proactively, at the outset of each meeting, any potential conflict of interest relating to the affairs of the committee or from changes in the member's personal circumstances.

Depending on the nature, extent and potential duration of the conflict of interest situation, the chairman of the audit committee should then determine an appropriate course of action with the said member. For example, the member might be asked to abstain from deliberation and decision-making, or in more extreme cases, the member could be asked to step down from the committee.

If it is the chairman of the audit committee that has a conflict of interest, the board should ask another member of the committee to lead in determining the appropriate course of action.

What constitutes a financially literate audit committee member?

To carry out its duties of financial oversight efficiently, it is of utmost importance that members of the audit committee possess sound financial literacy. Research findings indicate that the efficiency of an audit committee is enhanced by the financial expertise of its members, as it allows them to engage with management and external auditors in a more thorough manner, improving clarity and reliability of reporting and information flow[5].

[5] Anasweh, M 2021, *The relationship between audit committee characteristics and bank performance*, Turkish Journal of Computer and Mathematics Education

Financial literacy goes beyond basic familiarity with financial statements and would include the following:

Attributes of a financially literate audit committee member[6]:

- ability to read and understand financial statements, including a company's statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity, cash flow statement, notes to the statements, cost accounting, budgets and management's discussion and analysis ("MD&A");
- ability to understand and assess the general application of accounting principles and apply a critical view on the underlying assumptions;
- ability to analyse financial statements and challenge management's assertions on financials;
- awareness of, and familiarity with, new financial reporting standards and how they impact the company's financial performance to enable the member to ask pertinent questions;
- ability to assess the effectiveness of the audit process and the company's finance functions in generating reliable and timely financial information; and
- ability to ask probing questions about the company's operations against internal controls and risk factors.

*Note: A sample questionnaire is provided in the **Appendix IV** of this **Pull-Out** in order to further understand and assess who may qualify as a financially literate member.*

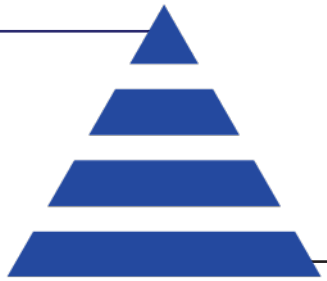
Examples of indicators which may highlight a lack of financial literacy amongst audit committee members are as follows:

- inability of the audit committee to critically probe highly risky transactions as well as key accounting policies and judgments adopted by the company in its financial reporting;
- undue reliance by the audit committee on management, auditors and experts to ensure the reliability of the financial statements; and
- lack of strategic input from the audit committee to the board on the drivers of financial performance.

What are the other qualities that should be considered in selecting audit committee members?

The audit committee members' financial literacy should be supplemented with personal competencies, and a sufficient understanding of the company's business, as captured in the ensuring page:

[6] *Adapted from the Guidebook for Audit Committees in Singapore (2014) issued by the Audit Committee Guidance Committee*



Personal Competencies

- Proactive in advising the board on any concerns
- Ability to appreciate company's value and have the determination to uphold these values coupled with a thoughtful approach to the ethical issues that may be faced
- A professional approach to duties, including appropriate time and effort commitment
- Courage to take and standby tough decisions and high ethical standards
- Ability to accept mistakes and not ascribe blame

Business Insight

- Scrutinise the financial process, transaction and other financial information against the company's strategy and goals as well as business threats and opportunities.
- Probe management's assertions on company's financials against budgeting, forecasting, and business analysis
- Analyses financial outcome of performance improvement project

How can new audit committee members be onboarded effectively?

The requirements for specialised skills, expertise and qualities (i.e. financial literacy, objectivity, business insights) to occupy the audit committee may result in new or specialist directors joining the audit committee. The company should ensure that they are supported through a thoughtfully designed onboarding process which is tailored to the new member's background and experience.

The onboarding process should include meetings with heads of business units, including the chief financial officer, head of internal audit, general counsel, company secretary, head of investor relations, to gain insights that are valuable to the directors understanding of his or her duties.

Additionally, the audit committee member should visit operational sites beyond the company's headquarters, such as factories, so as to gain a wholistic perspective on the company for better insights into the facts and figures listed above.

The onboarding components outlined above are also be applicable to experienced audit committee members, as the nature of business, risks, and challenges companies face are wide ranging.

What is the nature of continuous professional development programmes that should be undertaken by audit committee members?

Given the ever changing financial reporting and corporate landscape, it is essential for members of the audit committee to undertake continuous professional development to keep themselves abreast of relevant developments, as outlined in the areas below.

Core functions

- Accounting and auditing standards
- Internal audit framework
- Internal audit and external audit processes
- Financial management
- Corporate governance
- Regulatory and compliance requirements
- Risk management

Skills development

Technical skills:

- Reviewing internal controls
- Reviewing financial statements and audit reports
- Reviewing related party transactions and conflict of interest situations
- Reviewing enterprise risk management processes

Interpersonal skills:

- Questioning, challenging and supporting management and auditors

Role and purpose of the audit committee

- Key roles and responsibilities
- Accountability

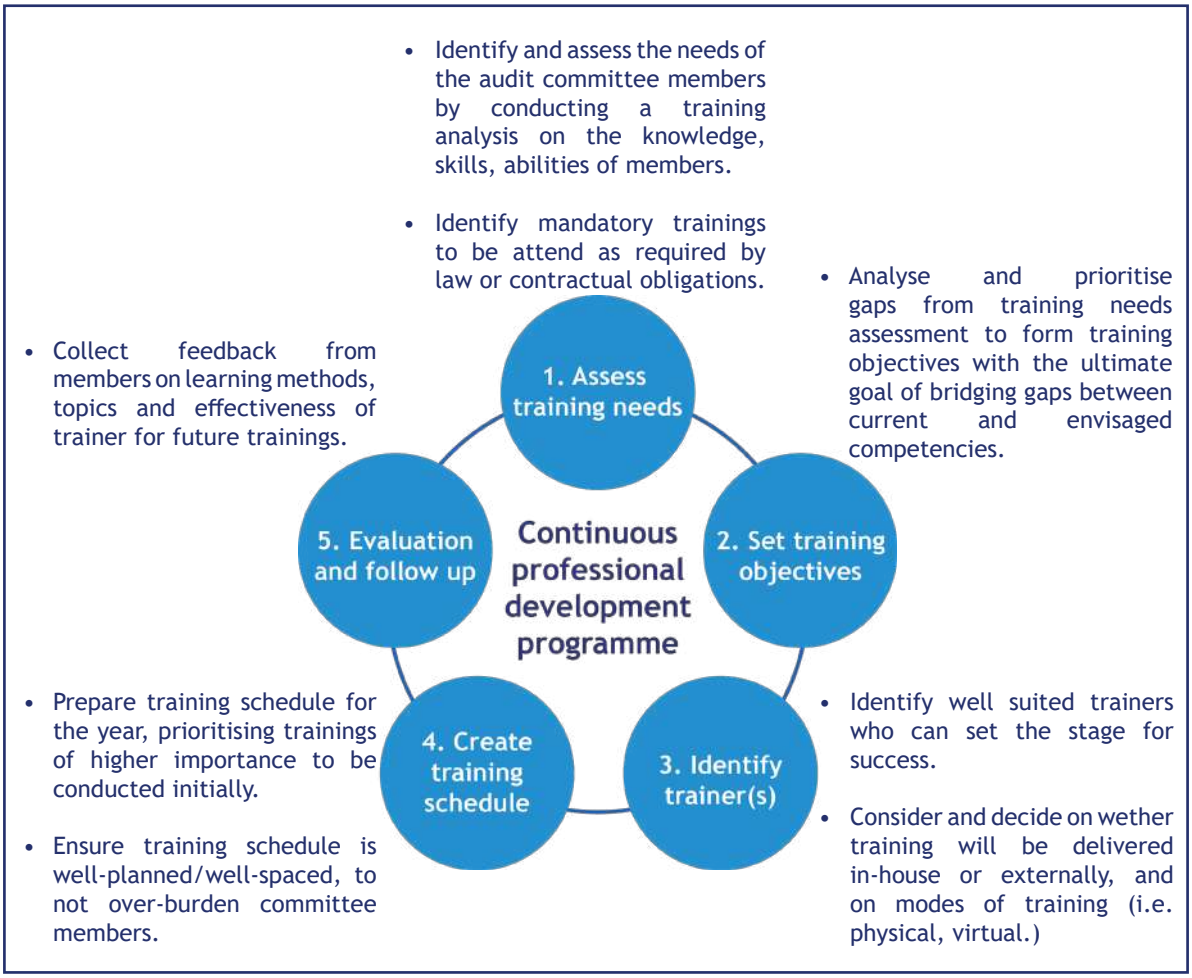
Topical updates

Examples include:

- New auditors report
- Corporate reporting
- Cybersecurity and data analytics
- Financial technology and digital economy
- Regulatory changes
- Transformations to business environment

Adapted from United Kingdom's Chartered Institute of Public Finance and Accountancy

To ensure training programmes undertaken by audit committee members are systematic and able to meet the learning objectives and participants expectations, the following steps should be undertaken with the support of the company secretary:



How can the deliberations of the audit committee be enriched?

Effective audit committee deliberations necessitate members to get to the root of the issues that is impacting the company's financial reporting process. This includes an assessment of relevant non-financial information such as business model and other operational aspects that can have a significant bearing on the company's value creation process. Audit committee members are required to apply an inquiring mind and make informed inquiries. Whilst audit committee members are entitled to avail themselves to external advisors, they should take a diligent and an informed interest in the information that is presented to them.

Applying an inquiring mind and making informed inquiries are key aspects of effective audit committee oversight. One of the world's distinguished investors, Warren Buffet is known for three key questions he developed for audit committees to consider, and he suggests the discussion of these matters be documented in the minutes of their meetings[7].

[7] Herdman, RK 2002, *Making Audit Committees More Effective*, Securities and Exchange Commission

Question I

If the auditor were solely responsible for the preparation of the company's financial statements, would they have been prepared in any way different than the manner selected by management? The audit committee should inquire as to both material and non-material differences.

Question II

If the auditor were an investor, would he have received the information essential to a proper understanding of the company's financial performance during the reporting period?

Question III

Is the company following the same internal audit procedure that would be followed if the auditor himself were the chief executive officer ("CEO")? If not, what are the differences and why?

A list of indicators that the audit committee should be aware of in relation to financial reporting and examples of questions to be posed to management on financial reporting are outlined in **Appendix I** of this **Pull-out**.

Case study: Toshiba Corporation (Japan)

Background:

- In 2015, it was revealed that Toshiba had overstated its earnings by JP¥ 151 billion (approximately USD 1.2 billion) for the period 2008 to 2014 in accounting irregularities, where the company's top management were involved[8].

Facts:

- An independent investigation committee comprising independent and impartial external experts was established, in 2015, to investigate the appropriateness of accounting treatments, and where deemed inappropriate, to investigate the cause and provide recommendations.
- The investigation committee had filed a report to the Tokyo Stock Exchange on its findings.
- The report highlighted the issues in the accounting treatment and crucially too, on the composition of the audit committee[9];
  - In an attempt to meet profit targets, Toshiba implemented a mechanism known as carry-over to overstate current year profits by adjusting profits and losses since 2008;

[8] Ando, R 2015 *Toshiba inflated profits by $1.2 billion with top exes' knowledge: Investigation*, Reuters
[9] *Investigation Report: Summary Version* 2015, Independent Investigation Committee for Toshiba Corporation

	◦ There was no evidence that the audit committee reported or commented on the inappropriate carry-overs. Additionally, there was difficulty in confirming that checks of the appropriateness of the accounting and financial reports were sufficiently implemented; ◦ Of the several projects for which the accounting was investigated, it was noted that the audit committee was aware of issues, but did not raise red flags or challenge the accounting treatment; ◦ In 2015, audit committee member, Seiya Shimaoka, had suggested to the audit committee chairman, Makoto Kubo, and other members, for a thorough examination regarding the accounting treatment for a restructure exercise which was resolved at a 2014 board meeting, to review whether there were issues related to the accounting treatment, but his repeated requests were not taken up. The report shows that there were indeed issues with the accounting related to the restructuring exercise; ◦ The former CFO of Toshiba, Tomio Muraoka, had chaired the audit committee from June 2011 to June 2014, after which he was succeeded by the next former CFO Makoto Kubo, who took over the position from June 2014; and ◦ At the time when the inappropriate accounting treatments had taken place, the audit committee was structured such that there was one full time member (the former Chief Financial Officer) in charge of finance and accounting audits, and the three other members, were outside directors, but unfortunately, did not possess adequate knowledge of finance and accounting. • In its recommendations, the investigating committee had stressed the need for Toshiba to appoint audit committee members who are familiar with finance and accounting, and for the audit committee to comprise independent directors.
Lessons Drawn:	• Independence of the audit committee members needs to be ensured from both aspects, namely “independence in appearance” and “independence of mind”, so that they are free from associations or circumstances that may impair the exercise of their independent judgement, and their thoughts and actions can be translated in their courage to stand up for an objective point of view. • Being financially literate enables audit committee members to carry out their duties successfully, being able to effectively challenge management’s assertions, as well as remain vigilant and raise skepticism on financial anomalies or irregularities in financial statements.

WHERE? Regional/International perspectives

Alongside Malaysia, jurisdictions such as Canada, South Africa and United Kingdom have incorporated enumerations for public listed companies to establish audit committees which comprise solely of independent directors.

Country	Provision(s)
Canada	Every audit committee member must be independent ***[Extract of Provision 3.1(3)]***. Every audit committee member must be financially literate ***[Extract of Provision 3.1(4)]***.
South Africa	The members of the audit committee should, as a whole, have the necessary financial literacy, skills and experience to execute their duties effectively ***(Recommended Practice 55 of Principle 8)***. All members of the audit committee should be independent, non-executive members of the governing body ***(Recommended Practice 56 of Principle 8)***.

Country	Provision(s)
South Africa	The board should establish an audit committee of independent non-executive directors, with a minimum membership of three, or in the case of smaller companies, two. The chair of the board should not be a member. The board should satisfy itself that at least one member has recent and relevant financial experience. The committee as a whole shall have competence relevant to the sector in which the company operates ***(Provision 24)***.

Risk Management and Internal Controls

MCCG Intended Outcome 10.0
Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

MCCG Practice 10.1
The board should establish an effective risk management and internal control framework.

MCCG Practice 10.2
The board should disclose the features of its risk management and internal control framework, and the adequacy and effectiveness of this framework.

WHY? The case for change

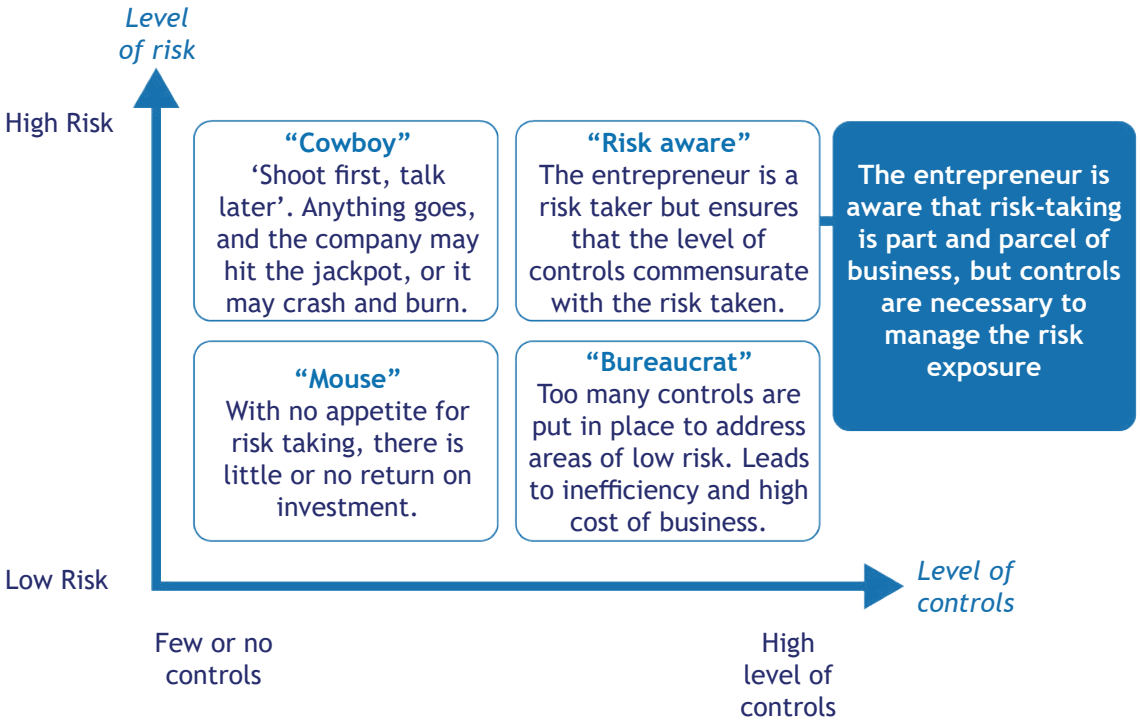
The changing nature risk, the art and science of choice, lies at the core of our modern economy. Every path that the board and management take in the pursuit of a business objective or strategy has its risks. From day-to-day operational decisions to the fundamental trade-offs in the boardroom, dealing with risk in these choices is a part of decision-making[1]. Risk management and internal controls provide the foundational systems and frameworks in which risks are managed, monitored and mitigated in order to increase the likelihood that established objectives and goals will be achieved. Within that definition, controls are the action taken by management who plan, organize and direct the performance of sufficient measures in providing reasonable assurance that objectives and goals will be achieved[2].

The understanding of risk management and internal controls as a value-adding proposition to a company is burgeoning. And when risk is considered in the formulation of an organisation's strategy and business objectives, enterprise risk management[3] helps to optimise outcomes and contribute to the performance of a company.

[1] *Enterprise Risk Management Integrating with Strategy and Performance*, 2017. The Committee of Sponsoring Organizations (COSO).
[2] Note: Definition adapted from; *Topics and Resources: Governance, Risk & Control*. 2021. The Institute of Internal Auditors.
[3] Defined here as: *"Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."* Source: Enterprise Risk Management — Integrated Framework Executive Summary, 2004. COSO.

Risk is defined by COSO as "the possibility that events will occur and affect the achievement of strategy and business objectives."[4]. Correspondingly, risks are no longer confined to operational or business risk, but companies are exposed to an ever expanding range of ESG risks.

The diagram below is commonly used to illustrate the relationship between entrepreneurship and risk management, and how they are complementary and not mutually exclusive.



Risk management and internal controls have become integral components in enhancing business resilience as we continue to live in a world that is volatile, uncertain, complex and ambiguous (VUCA). VUCA changes how organisations view the world, interact with each other, and respond to their environments. The manifestation of VUCA can be seen in many forms – the global COVID-19 pandemic, a massive collapse in oil and commodity prices, acts of terrorism, cyber security threats, natural disasters, climate change, and many more globally identified risks that can change the course of a business entity[5]. That is why organisation need to be more adaptive to change. Boards and management need to think strategically about how to manage the increasing volatility, uncertainty, complexity, and ambiguity of the world.

[4] *Compliance Risk Management: Applying the COSO ERM Framework*. 2020. COSO.
[5] *The Global Risks Report*, 2021. World Economic Forum.

Therefore, running a business with an appropriate risk management and internal control framework can be equated to driving fast whilst equipped with brakes. An agile board and management team can also gain value from establishing a robust risk management and internal control framework by steering the car (i.e. provide conscious leadership), checking the side mirror (i.e. learning lessons from the past) and looking ahead towards the final destination (i.e. future-oriented risk management).

Some of the benefits of risk management and internal controls are as follows:

- sharpens corporate strategy and heightens strategic focus;
- frees up capital to be invested in activities with higher returns;
- reduces costs;
- improves the risk finance portfolio;
- improves regulatory and legal compliance;
- enhances reputation and the company's attractiveness to investors;
- supports long-term plans and the sustainability of the business;
- equips the necessary structures for business continuity management; and
- acts as the platform for sound managerial decision-making.

HOW? The practice in substance

As with the **MCCG**, the **Companies Act 2016** and **Bursa Securities Listing Requirements** outline prescriptions on internal controls and risk management.

Section 246(1) of Companies Act 2016

The directors of a public company or a subsidiary of a public company shall have in place a system of internal control that will provide reasonable assurance that –

(a) the assets of the company are safeguarded against loss from unauthorized use or disposition and to give a proper account of the assets; and

(b) all transactions are properly authorized and that the transactions are recorded as necessary to enable the preparation of true and fair view of the financial statements of the company.

Paragraph 15.12(1) of Bursa Securities Listing Requirements

Without limiting the generality of **paragraph 15.11**[6] above, a listed issuer must ensure an audit committee, amongst others, discharges the following functions:

(1) review the following and report the same to the board of directors of the listed issuer:

(b) with the external auditor, his evaluation of the system of internal controls;

(e) the adequacy of the scope, competency and resources of the internal audit function and that it has the necessary authority to carry out its work;

(f) the internal audit plan, processes, the results of the internal audit assessments, investigation undertaken and whether or not appropriate action is taken on the recommendations.

Note: The above only represents an extract.

Paragraph 15.23 of Bursa Securities Listing Requirements

A listed issuer must ensure that the external auditors review a statement made by the board of directors of a listed issuer pursuant to **subparagraph 15.26(b)** below, with regard to the state of risk management and internal control of the listed issuer and report the results thereof to the board of directors of the listed issuer.

[6] Requirement for audit committee to have written terms of reference

Flowing from the above, providing balanced disclosures in relation to risk management and internal controls (highlighting areas of strengths as well as improvement considerations) is important for shareholders and other stakeholders. To facilitate disclosure and pursuant to **paragraph 15.26(b) of the Listing Requirements**, the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers ("SORMIC Guidelines") was issued by the Taskforce on Internal Control with the support and endorsement of Bursa Malaysia Securities Berhad.

Paragraph 15.26(b) of Bursa Securities Listing Requirements

A listed issuer must ensure that its board of directors makes the following additional statements in its annual report:

(b) a statement about the state of risk management and internal control of the listed issuer as a group.

Note: The above only represents an extract.

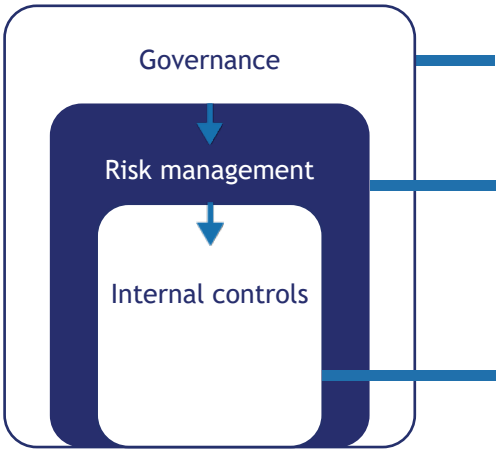
Enumerations in this regard for financial institutions are encapsulated in **Bank Negara Malaysia's Policy Document on Corporate Governance**[7]. **Paragraph 4 of the Bank Negara Malaysia's Policy Document on Corporate Governance** states that the established risk management committee is to support the board in meeting the expectations on risk management as set out in the policy document on Risk Governance[8].

[7] Paragraphs 3,4,5 7 and 12 of Appendix 1, Bank Negara Malaysia's Policy Document on Corporate Governance
[8] Bank Negara Malaysia's Policy Document on Risk Governance

It is helpful to view risk management and internal controls in the context of governance and how each element relates to the other:

The company's governance framework is always the starting point for its risk management and internal control processes. This is simply because the board will articulate the company's strategy, set the values and shape its culture.

These elements will influence the company's risk management appetite and in turn, the risk management appetite will dictate the kind of controls the entity will integrate into its business processes.



The board sets the strategy and defines the culture of the company. The risk-taking tone and philosophy is defined.

The risk management process works out risks associated with the company's strategic direction and also for its day-to-day operational processes. How much risk can the company bear at any one time without impacting its status as a going concern?

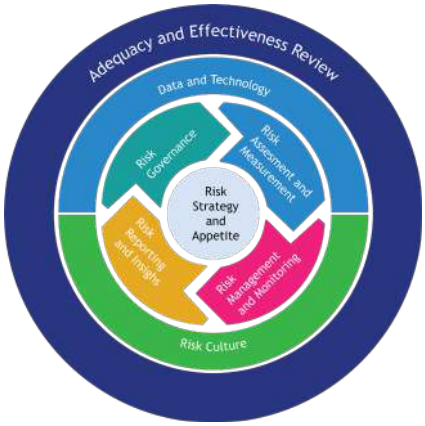
Internal controls are designed to address and manage risks identified. Stronger internal controls are assigned to areas of high risk whilst controls are moderated for processes that have a lower risk profile.

A number of methodologies have been developed to help companies approach risk management and internal controls in a systematic manner. Some of these have been widely accepted and include the following:

- ISO 31000 (2018) on principles and guidelines for risk management;
- The internal control environment framework suggested by the Committee of Sponsoring Organisations of the Treadway Commission (the "COSO framework" which in its latest iteration is now known as "Enterprise Risk Management—Integrating with Strategy and Performance", highlights the importance of considering risk in both the strategy-setting process and in driving performance); and
- Other globally recognised internal control and risk management frameworks developed by professional organisations include:
    - Criteria of Control Framework as developed by the Canadian Institute of Chartered Accountants or widely known as "CoCo Framework";
    - Control Objectives for Information and Related Technology, as published by the Information Systems Audit and Control Association (ISACA) and the IT Governance Institute or widely known as "COBIT";
    - KPMG's Enterprise Risk Management (ERM) methodology.

- Locally recognised internal control and risk management guidance documents that capture aspects on managing specific risks amongst other include:
    - **Bank Negara Malaysia's Policy and Guidance Documents** covering risk management in technology, compliance, agent management, e-money issuance etc; and
    - **Prime Minister's Department's Guidelines on Adequate Procedures** (Pursuant to **Subsection (5) of Section 17A** under the **Malaysian Anti-Corruption Commission Act 2009**) (on corruption and fraud risks).

Examples of key aspects contained in a frame of reference to drive the governance of risk management and internal controls in a systematic manner is outlined below:



KPMG's Enterprise Risk Management (ERM) methodology takes a structured, holistic approach to managing the uncertainties that businesses face. It relies on the creation of robust internal mechanisms for gathering, analysing, monitoring and understanding the relevant information. Rather than addressing risk in isolation, a strategic and coordinated approach to risk allows organizations to integrate data and improve risk management effectiveness. An integrated view of risk management strengthens the risk and compliance functions by creating collaboration, transparency, and accountability—and ultimately, a foundation of trust.

Risk strategy and appetite	Conscious collective decision to use risk management to support strategic objectives. It includes risk appetite statements and tolerance limits.
Risk governance	A structure through which the company directs, manages and reports its risk management activities. It encompasses clear roles and responsibilities, decision rights, the risk governance operating model, and reporting.
Risk assessment and measurement	Tools and techniques to identify, measure and quantify current and emerging risks. It allows companies to consider the extent to which potential events may have an impact on achievement of objectives.

Risk management and monitoring	Management's risk strategies and responses to manage risks and improve risk and business performance. Continuous monitoring against established metrics permits proactive and timely response where warranted.
Risk reporting and insights	Reporting of risk information provides insights on significant risks and the strengths and weaknesses in managing them. Disclosure of risk management information to key stakeholders also supports timely decision-making.
Data and technology	Information and associated storage and delivery mechanisms which provide management with a real time view of the key risks and how these are being managed (including risk register).
Risk culture	Values and behaviours that shape risk decisions. Risk culture influences the decisions of management and employees. A strong risk culture helps to encourage strategic decisions and long term value for all stakeholders.
Adequacy and effectiveness review	Internal processes by which management and the Board derive assurance on the overall adequacy and effectiveness of the internal control and risk management systems.

Whilst the board remains responsible over risk management and internal controls, the task of scrutinising the framework (i.e. its design and effectiveness) is often taken up by a board committee, typically the risk management committee and the audit committee. In some entities, these committees are combined. It is pertinent for the committee members to have sound knowledge of risk management and internal control concepts, and to be able to assess risks in an objective manner – given the elements of self-interest and pressure to achieve returns, representations made by management may not represent the true picture.

Key considerations relating to the application of these Practices **(Practices 10.1 and 10.2)** are discussed below:

What are the practical ways to embed a risk aware and control optimised culture in companies?

Risk management is often an unwritten process particularly during a company's start-up phase of its life. As the company progresses along its life cycle and the number of stakeholders increase, risk management and internal controls should receive appropriate consideration and be embedded as part of the company's culture

Some guidance are provided below:

- Establishing an effective and well-designed internal control system that takes into account the nature and circumstances of the company. This will support the objective of managing identified risks in the company;
- Designating a section on risk in board papers on proposals, investments, etc. This promotes a culture of risk awareness and can assist directors in identifying "blind spots";
- Having a well-supported internal audit function. The internal audit function is regarded as a key line of defence after day-to-day management and bolsters the defence provided by the risk management function. Hence, it can greatly benefit the company by way of advising the board on where it can minimise avoidable losses; and
- Taking small steps can help to inculcate a risk aware culture over time. For example, it is customary for construction companies to hold a "toolbox talk" prior to commencement of work. Such talks focus on safe working practices and hazards to look out for.

Examples of questions to be posed to management on controls and compliance are outlined in **Appendix V** of this **Pull-out**.

What are the key considerations that should be taken into account in establishing an adequate and effective internal control and risk management framework?

An adequate and effective internal control and risk management framework provides companies with a structured approach to implement, monitor, review and improve internal control and risk management in tandem with the changing business circumstances.

Examples of overarching components and key considerations that should be taken into account in establishing an adequate and effective internal control and risk management framework (as advocated by COSO) are outlined on the following page.

Companies should be taking a more active role in understanding and addressing ESG-related risks in its overall risk management and internal control framework. Following this, COSO has released a guidance[9] how on companies can integrate ESG risks into its ERM structures and processes in developing a mature risk management.

*Note: To explore more on the oversight and management of ESG risks, please refer to the **write-up to Practice 4.1 - 4.5**.*

[9] *COSO Enterprise Risk Management—Integrating with Strategy and Performance*, 2017.

Five interrelated components of an internal control and risk management framework

Note: The term "objectives" in the explanations below refers to the objectives relating to operations, reporting and compliance.

Governance & Culture	1. Governance sets the organization's tone, reinforcing the importance of, and establishing oversight responsibilities for, enterprise risk management. 2. Culture pertains to ethical values, desired behaviors, and understanding of risk in the entity.
Strategy & Objective-Setting	3. Enterprise risk management, strategy, and objective-setting work together in the strategic-planning process. 4. A risk appetite is established and aligned with strategy; business objectives put strategy into practice while serving as a basis for identifying, assessing, and responding to risk.
Performance	5. Risks that may impact the achievement of strategy and business objectives need to be identified and assessed. Risks are prioritized by severity in the context of risk appetite. 6. The organization then selects risk responses and takes a portfolio view of the amount of risk it has assumed. The results of this process are reported to key risk stakeholders.

Review & Revision	7.	By reviewing entity performance, an organization can consider how well the enterprise risk management components are functioning over time and in light of substantial changes, and what revisions are needed.
Information, Communication & Reporting	8.	Enterprise risk management requires a continual process of obtaining and sharing necessary information, from both internal and external sources, which flows up, down, and across the organization.

Source: Adapted from the COSO Enterprise Risk Management—Integrating with Strategy and Performance[10]

How can the board assess the adequacy and effectiveness of the risk management and internal control framework?

The board should define the processes to be adopted for its on-going monitoring and review, including specifying the requirements, scope and frequency for reporting and assurance. The board should form its own view on effectiveness and adequacy of the risk management and internal controls, based on the evidence it obtains.

The board's assessment should, in particular, consider[11]:

- the company's willingness to take on risks (its "risk appetite"), the desired culture within the company and whether this culture has been embedded;
- the operation of the risk management and internal control systems, covering the design, implementation, monitoring and review, and identification of risks and determination of those which are principal to the company;
- the integration of risk management and internal controls with considerations of strategy and business model, and with business planning processes;
- any changes since the last assessment in the nature and extent of significant risks, and the company's ability to respond to changes in its business and the external environment;
- the work of its internal audit and risk management (where applicable) units and other assurance providers;
- the extent and frequency of the communication relating to the results of the monitoring, to the board [or board committee(s)];

[10] COSO is a framework that is developed by the International Committee of Sponsoring Organizations of the Treadway Commission to guide companies in designing, implementing and evaluating internal controls in response to the risks that are being faced by the company.
[11] *Guidance on Risk Management, Internal Control and Related Financial and Business Reporting* 2014, Financial Reporting Council of United Kingdom

- the incidence of significant control failings or weaknesses that were identified at any time during the period and their impact on the company's performance or condition (financial or otherwise);
- the integration of risk management and internal controls with ESG risks and opportunities; and
- any events that impacted the achievement of objectives that were not anticipated by management.

Further reflection

The exposure to nuanced risks such as regulatory, cyber security, information technology, reputational and geo-political risks are often overlooked (i.e. "orphan risks") and not integrated as part of a company's risk management framework, ultimately to a company's detriment. In the wake of corporate governance failures and the Global Financial Crisis 2007, non-financial risks have risen as an emerging issue due to systemic shock it could cause to the global economy[12].

In 2019, the Corporate Governance Taskforce of the Australian Securities and Investments Commission released a report on "Director and officer oversight of non-financial risk"[13] and found that many directors identified challenges with overseeing non-financial risks in large, complex organisations. One major takeaway is that in overall risk appetite and accompanying metrics for non-financial risk were immature compared to those for financial risk. Upon reviewing 29,000 documents which included board papers and minutes, in terms of information flow, it also learned four crucial gaps:

(1) material information about non-financial risk was often buried in dense, voluminous board packs – boards did not own or control the information flows from management to the board to ensure material information was brought to their attention;

(2) management reporting often did not identify a clear hierarchy or prioritisation for non-financial risks;

(3) care needed to be taken to ensure undocumented board sessions and informal meetings between directors didn't create asymmetric information at board level; and

(4) information flows between board committees and full boards were sometimes informal and ad hoc.

[12] *Global Financial Stability Report Responding to the Financial Crisis and Measuring Systemic Risk*. 2009. International Monetary Fund.
[13] *Executive Summary: Director and officer oversight of non-financial risk report*, 2019. Australian Securities and Investments Commission.

What are the common pitfalls that should be avoided in the management of risks?

The following are some of the issues the board should be wary of:

Common pitfalls in risk management:

- box-ticking rather than business-led assessment of risk approach;
- failure and/or the inability to prioritise principal risks in relation to their mitigating measures leading to unidentified strategic risks turning into emerging risks without a preparedness to respond;
- risks are managed in silos and their impact is not considered across business units and functions;
- inadequate attention is given to the ever changing internal and external market environment;
- merely discussing risk issues without integrating them into the board's own decision-making process, since strategic risks can be difficult to identify;
- general failure to embed risk management in the culture and processes of the company and its workforce, leading to the lack of a sustainable risk identification system in place across business units and functions;
- there is no precise documented accountability for managing risks;
- level of investment is not always a reliable proxy for the level of enterprise risk;
- the board does not have a sense of assurance arising from risk management implementation; and
- bad news is not easily communicated to the top.

Can internal controls be designed independently outside the risk management process?

Internal controls are policies and procedures put in place by management to ensure that, among other things, the company's financial statements are reliable[14]. The objective of the auditor (typically the internal auditor) is to identify and assess the risk of material misstatement, whether due to fraud or error, at the financial statement and assertion levels. It includes understanding the entity and its environment and the entity's internal controls in order to design the proper audit procedures to achieve the desired level of assurance. Internal controls as designed by the head of business units should be socialised to the respective users with clear guidance in the form of standard operating procedures. The design and operating effectiveness of the internal controls should be monitored closely and be subject to periodic internal audits.

The design of internal controls in silos and without reference to their associated risks can lead to an imbalance and consequently, certain key risk areas may be left unaddressed. For example, too many controls (and thus, resources) are put in place over petty cash, which in the grand scheme of things is hardly material to a company's survival.

Testing of internal controls includes making inquiries to management and employees, inspecting source documents, observing inventory counts, and actually re-performing client procedures. Finally, the internal auditor will perform more substantive procedures to assess the level of overall risk according to the audit strategy.

What are some of the more common ways in which a company's appetite for risk can be articulated?

Risk appetite should underpin a company's risk management activities. Some companies prefer the distinction between risk tolerance (i.e. maximum risk that can be taken before financial distress) and risk appetite (amount of risk that is actually taken for risk reward benefits). Risk appetite is defined as the amount of risk, on a broad level, an organization is "willing to accept" in pursuit of value[15].

[14] *Internal Controls: Policies and procedures to ensure the reliability of financial statements.* 2015. Corporate Finance Institute.
[15] *Enterprise Risk Management — Understanding and Communicating Risk Appetite*, 2012. COSO.

An organisation may choose to adopt an objective-focused approach and cascade those objective-based appetite statements into risk-focused statements. Below is an example as shared by COSO[16]

Objective-focused

Organic Natural Food Company
We understand that innovation requires a more moderate risk appetite and will manage the risk of falling to develop new tastes our customers desire with the opportunity to enhance our product line. We will not make decisions that compromise our brand by using products that are not certified organic. We accept that this decision may increase our costs.

Objective
Develop new, innovative products that interest and excite consumers.

Risk-focused

Product Development
Maintain 6 to 10 products in development at all times.

Risk :
Insufficient products under development to meet customer needs

Consumer Acceptance
Maintain customer satisfaction rate within a range of 4.6 to 4.9 out of 5.

Risk :
Customers become unsatisfied with snacks developed by the company.

Production Capacity
Limit investment in new equipment to bring innovative ideas into production to no more than 50% of our overall capital budget.

Risk :
Innovation is not financially viable.

[16] *Risk Appetite — Critical to Success*, 2020. COSO

A company's risk appetite can be articulated in the following ways:

Common ways to articulate risk appetite (non-exhaustive):

- **Setting a boundary on the "impact vs likelihood" grid**

  Established through the use of risk matrices where a risk appetite line is drawn to demarcate the boundary between those risks that are deemed to be "high" and those which are not. Typically identified through an "Enterprise Risk Management" process.

- **Economic capital measures/balance sheet based expressions**

  Achieved by the ability to absorb losses by holding surplus capital against the desire to invest capital to generate a positive return. The higher the risk premium, the lower the appetite for risk.

- **Changes in credit ratings**

  Based on probability of default by a rating agency, companies with "AA" rating may not wish to take any risks that may cause a downgrade to an "A" rating.

- **Profit and loss measures**

  Profit and loss based expressions, e.g. companies that set maximum loss figures.

- **Value based measures**

  Accomplished by setting limits around the volatility of share price or against a target share price. This allows companies to direct their attention to investments, projects and activities that are likely to achieve these targets/limits.

- **Develop effective targets or thresholds for key risk indicators**

  The simplest method where the company sets a range of key risk indicators (monitors changes in exposure to a specific risk event), key control indicators (monitors to determine whether specific controls are operating effectively) and key performance indicators ('KPIs") (monitors to keep track on the financial performance or operational efficiency). Examples of common risk indicators are outlined in **Appendix VI** of this **Pull-out**.

- **Qualitative statements**

  Expressions of statements that cannot be articulated numerically. Also applied to areas of risk that are difficult to quantify effectively, such as reputation risks. Often easy to understand and communicate and integrate within the organisation's culture or statement of values, e.g. "We have zero tolerance for fraud".

An illustrative non-exhaustive list of risk appetite threshold (quantitative and qualitative) is provided below:

Quantitative	
Measure	**Risk Appetite (Variance Range)**
Revenue	1% - 2.5%
Earnings per share	3% - 5%
Cash flow	5% - 10%
Credit rating	To maintain grade of XX

Quantitative	
Measure	**Risk Appetite (Target)**
Energy efficiency	Reduce consumption per unit
Safety measures e.g. recorded accident rates	To achieve recordable case
Reputation exposures	Zero tolerance for negative press coverage or customer satisfaction improvements
Greenhouse gas	X% reduction per tonne

What should be considered from a disclosure perspective?

The state of internal control system of the group (the listed issuer and its subsidiaries) is articulated primarily through the "Statement of Risk Management and Internal Control" within the listed issuer's annual report. In essence, directors are to comment amongst others on the following:

- What are the features of the risk management process and internal control system – for example, how are risks identified? Were risks flagged during a workshop session or during a board session? How are risks, as they evolve, tracked and managed?
- Did the board assess the design of the risk management process and internal control system and test their effectiveness?
- If weaknesses surfaced during the process, how did the board treat such weaknesses? Were any deficiencies corrected?
- In summary, what does the board think of the risk management process and internal control system?

In making the Risk Management and Internal Control Statement, a listed issuer should be guided by the SORMIC Guidelines which is issued by the Taskforce on Internal Control with the support and endorsement of Bursa Malaysia Securities Berhad.

Paragraphs 41 and 42 of the said document which is reproduced below outline the key elements that a listed issuer should provide in its narrative statement so as to enable stakeholders to make an informed assessment of the main features and adequacy of the listed issuer's risk management and internal control system.

Some iterations of the SORMIC Guidelines include:

Paragraph 41 of SORMIC Guidelines

In its narrative statement, the board should disclose the following:

- The main features of the company's risk management and internal control system;
- The ongoing process for identifying, evaluating and managing the significant risks faced by the company in its achievement of objectives and strategies;
- That such process has been in place for the year under review and up to the date of approval of this statement for inclusion in the annual report;
- The process it (or where applicable, through its committees) has applied in reviewing the risk management and internal control system and confirming that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review;

- That a review on the adequacy and effectiveness of the risk management and internal control system has been undertaken;
- Commentary on the adequacy and effectiveness of the risk management and internal control system;
- The process it has applied to deal with material internal control aspects of any significant problems disclosed in the annual report and financial statements; and
- Where material joint ventures and associates have not been dealt with as part of the group for the purposes of applying these guidelines, this should be disclosed.

Paragraph 42 of SORMIC Guidelines

In its narrative statement, the board should also include whether it has received assurance from the chief executive officer and chief financial officer on whether the company's risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management and internal control system of the company.

It should be noted that **Audit and Assurance Practice Guide 3: Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report (Revised February 2018)** by the MIA provides guidance for auditors in applying Malaysian Approved Standard on Assurance Engagements, International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information in the performance of a limited assurance engagement to report on the Statement on Risk Management and Internal Control.

The case study below demonstrates the non-negotiable importance of managing cyber risks.

Case Study: Singapore Health Services ("SingHealth") cyberattack[17] (Singapore)

Background:

- Between June 27 and July 4, 2018, an Advanced Persistent Threat (APT) cyberattack was deployed on SingHealth's Sunrise Clinical Manager (SCM) database, exposing 1.5 million patients' and 160,000 outpatients' electronic medical records, including chief target, Singapore's Prime Minister Lee Hsien Loong.
- The hackers targeted a public healthcare database with significant amount of Personally Identifiable Information (PII) that can be used for scams and phishing acts.
- Dubbed as the "largest cyberattack in Singapore thus far", the incident has explicitly brought issues like cyber risks, cyber security, data governance, third-party risk management and crisis management to the fore.

Facts:

- SingHealth is Singapore's largest group of healthcare institutions owned by the Ministry of Health via parent company, MOH Holdings Pte Ltd.
- Following the incident, a Committee of Inquiry (COI) was set up in late July 2018 to investigate how the cyberattack occurred, its root causes and impact.
- Allscript, SingHealth's software provider, highlighted weakness of SingHealth's Electronic Medical Records (EMR) system back since 2014, however was met with inadequate and tardy actions from SingHealth and its technology partner, Integrated Health Information System (IHiS). By the time the system was closed, patients' confidential data were stolen.
- The COI's investigation on the "pauses, gaps and overlaps" of the breach can be summarised by the following:
  - (1) inadequate level of cybersecurity awareness, training, and resources to identify and respond to cyberattacks;
  - (2) failure of effective prevention response from key IT personnel;
  - (3) vulnerabilities of database system which allowed easy hacking;
  - (4) skilled hackers that utilized APT attack methods;

[17] Adapted from; Mak, Y.T. *SingHealth: Poor Data Health; Corporate Governance Case Studies Volume 8*, 2019. CPA Australia.

	(5) poor work culture (i.e. head knowledge syndrome); (6) lack of technical cybersecurity expertise at management level; and (7) overreliance on informal communication mediums, causing chaotic and incomplete reporting. • In terms of crisis management, SingHealth (with ample support and coordination with the government) implemented a series of counter-measures to assure public fears (i.e. setting up dedicated hotline, server mitigation, halting of other data projects involving public records and a commissioned study on the vulnerabilities of IT systems and infrastructure of other public sectors).
Lessons Drawn:	• As operations of the company are increasingly digitalised, cyber risks should take center stage in the agenda of the board. • "Black-swan events" like these often are only understood by boards and management when it actually happens. There should be some form of "doomsday scenario planning" in the risk treatment by the board, particularly independent directors. • The saying "people are always the weakest link in the risk management and internal control framework" is a worthwhile consideration for boards. Because risk items like work culture or social settings are not quantifiable or tangible, boards must develop a better understanding of non-financial risks. • Crisis management can flourish if there is effective coordination, transparency, use of resources and strategy. In this case, owning up to the "people of Singapore" was the main driving force in reaction to the event.

WHERE? Regional/International perspectives

Risk management and internal controls are well-established concepts and therefore, as in the case of Malaysia, many jurisdictions have long incorporated them into governance documents.

Country	Provision(s)
Australia	A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework. **(Principle 7)** A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its governance, risk management and internal control processes. **(Recommendation 7.3)** A listed entity should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks. **(Recommendation 7.4)**

Country	Provision(s)
Singapore	The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the company and its shareholders. ***(Principle 9)*** The Board requires and discloses in the company's annual report that it has received assurance from: (a) the CEO and the Chief Financial Officer ("CFO") that the financial records have been properly maintained and the financial statements give a true and fair view of the company's operations and finances; and (b) the CEO and other key management personnel who are responsible, regarding the adequacy and effectiveness of the company's risk management and internal control systems. ***(Provision 9.2)***
South Africa	The governing body should exercise ongoing oversight of risk management and, in particular, oversee that it results in the following: (a) An assessment of risks and opportunities emanating from the triple context in which the organisation operates and the capitals that the organisation uses and affects. ***(Extract of Recommended Practice 6 under Principle 11)*** In addition, the following should be disclosed in relation to risk: (a) An overview of the arrangements for governing and managing risk. (b) Key areas of focus during the reporting period, including objectives, the key risks that the organisation faces, as well as undue, unexpected or unusual risks and risks taken outside of risk tolerance levels. (c) Actions taken to monitor the effectiveness of risk management and how the outcomes were addressed. (d) Planned areas of future focus. ***(Recommended Practice 9 under Principle 11)***

Country	Provision(s)
South Africa	The governing body should assume responsibility for assurance by setting the direction concerning the arrangements for assurance services and functions. The governing body should delegate to the audit committee, if in pace, the responsibility for overseeing that those arrangements are effective in achieving the following objectives: (a) Enabling an effective internal control environment. ***(Extract of Recommended Practice 40 under Principle 15)***
United Kingdom	The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives. ***(Principle 0)*** The board should carry out a robust assessment of the company's emerging and principal risks. The board should confirm in the annual report that it has completed this assessment, including a description of its principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated. ***(Provision 28)*** The board should monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls. ***(Provision 29)*** In annual and half-yearly financial statements, the board should state whether it considers it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. ***(Provision 30)***

Country	Provision(s)
United Kingdom	Taking account of the company's current position and principal risks, the board should explain in the annual report how it has assessed the prospects of the company, over what period it has done so and why it considers that period to be appropriate. The board should state whether it has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary. ***(Provision 31)***

Establishment of Risk Management Committee

MCCG Intended Outcome 10.0
Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

MCCG Step Up 10.3
The board establishes a Risk Management Committee, which comprises a majority of independent directors, to oversee the company's risk management framework and policies.

WHY? The case for change

The marketplace is becoming increasingly complex as new waves of change are reshaping numerous industries, as illustrated in the diagram below:

Key changes in the current business context:

Source: *On the 2021 board agenda*, KPMG Board Leadership Centre

As seen in the diagram in the previous page, boards will continue to operate against a backdrop of tremendous uncertainty and heightened expectations from stakeholders on the items listed out above such as ESG, human capital, business resilience and etc. In other words, boardroom agendas are increasingly packed and becoming more complex with multitude of issues and opportunities. Hence, board members need to have the adequate skills and knowledge to address these wide-ranging risks.

The greater sophistication and complexity of businesses have significantly affected the way in which management implements key decisions. Being able to challenge management on how the company is responding to these signals and exposures necessitates greater attention at the oversight level.

A key driver for the establishment of a dedicated board risk management committee is the need for comprehensive views as opposed to silo perspectives. At present, most of the committees and other governance mechanisms are focused on one specific aspect of the company's risks. For example, audit committees typically oversee financial reporting risks and certain compliance-related risks that can have financial reporting implications. Remuneration committees oversee risks related to how the remuneration structure drives behaviour within the company. This oversight model commonly leaves other critical risks such as technological, litigation and environmental risks unattended, thus giving rise to the scenario dubbed as "orphan risks syndrome".

The move towards an ever more integrated and comprehensive risk oversight typically results in establishment of a dedicated risk committee. Indeed, as reported by Organisation for Economic Co-operation and Development (OECD), assigning the role of risk management oversight to a board-level committee is also becoming more common in large companies[1]. In a study of 50 leading governance jurisdictions[2], the OECD also observed that regulatory and code provisions for a separate board-level risk committee is slowly picking up. Risk committees are required or recommended in 19 jurisdictions as shown in the diagram below:

Source: *OECD Corporate Governance Factbook 2021, OECD*

[1] *Risk Management and Corporate Governance*, 2014. OECD.
[2] *OECD Corporate Governance Factbook* 2021, OECD.

In the case of financial institutions, the need for a stand-alone risk management committee is even more compelling as the nature of risks inherent in their operating models are varied and nuanced. Exposures such as market, credit and liquidity risks are closely related to the fluctuating macroeconomic environment, thus rendering them volatile. These exposures elicit the deployment of complex risk infrastructures and call for greater scrutiny at the board level.

Recognising the significance of dedicated risk oversight in licensed financial institutions, **Standard 12.1(c) of Bank Negara Malaysia's Policy Document on Corporate Governance** mandated the establishment of a risk management committee.

HOW? The practice in substance

It is clear that whilst ultimate responsibility for a company's risk management framework rests with the board, having a risk management committee can be an efficient and effective mechanism to bring the transparency, focus and independent judgment needed to oversee the company's risk management framework.

Key considerations relating to the application of this Step Up are discussed below:

What are the key responsibilities of the risk management committee?

A risk management committee should have a terms of reference that clearly sets out its role and provides it with all the necessary powers to perform that role. Some of the suggested responsibility areas that can be considered when outlining the terms of reference of a risk management committee are set out below:

Key risk oversight responsibilities (non-exhaustive)[3]:

- Review with management the primary elements comprising the company's risk culture, including establishing "a tone from the top" that reflects the company's core values and the expectation that employees act with integrity and promptly escalate non-compliance in and outside of the company; accountability mechanisms designed to ensure that employees at all levels understand the company's approach to risk as well as its risk-related goal.
- Review with management the company's risk appetite and risk tolerance and assess whether the company's strategy is consistent with the agreed-upon risk appetite and tolerance for the company.
- Maintain/Establish a clear framework to hold management accountable for building and maintaining an effective risk appetite framework and providing the board with regular, periodic reports on the company's residual risk status.
- Review with management the design of the company's risk management functions, as well as the qualifications and backgrounds of senior risk personnel and the policies applicable to risk management, to assess whether they are appropriate given the company's size and scope of operations.
- Oversee the conduct, and review the results, of company-wide risk assessments, including the identification and reporting of critical risks.
- Review with management the categories of risk the company faces, including any risk concentrations and risk interrelationships, as well as the likelihood of occurrence, the potential impact of those risks, mitigating measures and action plans to be employed if a given risk materialises.

[3] Adapted from Lipton et al 2018, *Risk management and the Board of Directors*, Harvard Law School Forum on Corporate Governance

- Review with management the ways in which risk is measured on an aggregate, company-wide basis, the setting of aggregate and individual risk limits (quantitative and qualitative, as appropriate), the policies and procedures in place to hedge against or mitigate risks and the actions to be taken if risk limits are exceeded.

- Review with management the assumptions and analysis underpinning the determination of the company's principal risks and whether adequate procedures are in place to ensure that new or materially changed risks are properly and promptly identified, understood and accounted for in the actions of the company.

- Review management's implementation of its risk policies and procedures, to assess whether they are being followed and are effective.

- Provide advice to the board on risk strategies and coordinate the activities of the various standing board committees for risk oversight.

- Review internal systems of formal and informal communication across divisions and control functions to encourage the prompt and coherent flow of risk-related information within and across business units and, as needed, the prompt escalation of information to senior management (and to the board or board committees as appropriate). Review reports from management, independent auditors, internal auditors, legal counsel, regulators, stock analysts and outside experts as considered appropriate regarding risks the company faces and the company's risk management function, and consider whether, based on each individual director's experience, knowledge and expertise, the board or committee primarily tasked with carrying out the board's risk oversight function is sufficiently equipped to oversee all facets of the company's risk profile—including specialized areas such as cybersecurity—and determine whether subject-specific risk education is advisable for such directors.

- Review with management the means by which the company's risk management strategy is communicated to all appropriate groups within the company so that it is properly integrated into the company's enterprise-wide business strategy.

Care should be exercised to minimise overlaps in relation to specific risks that the risk committee is assigned to oversee (e.g. oversight of compliance risk by both the audit committee and risk management committee). Although there will be unavoidable overlaps between the risk management committee with other board committees in terms of risk discussions and agenda, there should be clear communication and alignment between the board committees to ensure that there is no "double work" or information asymmetry. Hence, the terms of reference of the risk management committee should also be crafted in a way that minimises any potential overlaps from the "get go".

Can a combined board committee lead to focused or dedicated oversight of risk management as envisaged by Step Up 10.3 of MCCG?

In determining whether there is dedicated oversight by the committee, the test would be the balance of work performed by the committee and whether matters of risk are accorded with due attention.

Under normal circumstances, a combined committee (e.g. audit and risk management committee) would not be considered as an application of **Step Up 10.3 of MCCG**. Combined committees are commonly overwhelmed with their primary agenda and may not have the expertise to oversee risk management matters in an effective manner.

What are the factors that should be taken into account in establishing the composition of a risk management committee?

In order to be able to discharge the committee's mandate effectively, a risk management committee should be of sufficient size and independence (majority independent directors) and its members between them should have a sufficient understanding of the industry in which the company operates. Having directors who have little knowledge of the industry or the business environment would not add value to the committee and its function, leading to substandard risk assessment.

Key factors in determining the committee's composition are outlined below:

Size

The risk management committee should be of an appropriate size (i.e. at least three members) so that members can deliberate in an effective manner and any changes to the composition can be managed without undue disruption.

Independence

The risk management committee should comprise a majority of independent directors to enable objective oversight of risk matters. Whilst executive directors have more in-depth knowledge on the exposures that the company is subjected to, it is widely held that executive directors have a greater propensity to take risks given that their evaluation and remuneration are usually linked to the company's performance.

Business/Industry knowledge

Directors with risk management experience and strong industry or business knowledge can significantly add value to the deliberations of the risk committee, particularly on operational risks. Their knowledge on the subject matter relating to the industry and the external environment may help to provide a better understanding of business-specific issues or growing exposures.

Time commitment

The establishment of an additional committee demands the time of directors. As such, consideration should be given in appointing members who are able to devote the time and attention to the affairs of the risk management committee.

Catastrophic operational and governance failures have driven the need for a dedicated risk management committee. In the case study below, we look at how risk oversight has evolved for one of the biggest aviation and aerospace companies in the world, Boeing;

Case Study: The Boeing Company ("Boeing") and risk management oversight[4] (United States of America)

Background:	• The crashes of Lion Air Flight JT610 and Ethiopian Airlines Flight ET302 astounded the aviation industry, triggered numerous investigations, and resulted in a worldwide grounding of hundreds of Boeing 737 Max jets. • The 737 Max is Boeing's newest family of single-aisle airplane and the fastest-selling airplane in Boeing history, accumulating almost 4,700 orders from over 100 customers worldwide. • As commercial air travel increased globally, the sales for Boeing's new commercial jetliners, the 737 Max and 787 Dreamliner, soared due to increased international orders. As a result, Boeing saw its revenue exceeding US$100 billion for the first time in 2018 and the company's stock price skyrocketed. • Intense competition and market demand pushed Boeing to "rush" its planes. Reports gathered that due to market rumours that Boeing might lose out to its main rival, Airbus, Boeing rushed to launch the 737 Max into the market and offered the plane to American Airlines even before obtaining approval for the design from the board. • Multiple investigations into the flight crashes reported that vulnerable systems and inadequate technical failures proved to be fatal (i.e. malfunctioning stick shaker, the airspeed and altitude indicators, failure in automatic flight control system).
Facts:	• For the longest time in Boeing's history, risk management has always been a function under the audit committee. The Chairman of the Audit Committee also came under the scrutiny of Glass Lewis, which felt that Lawrence Kellner should be removed from his Audit Committee Chairman position due to probable shortfalls in Boeing's risk management framework that might have resulted in the crashes. • The apparent lack of a specialised risk management committee focusing on aviation safety, coupled with Boeing's close relationship with the FAA, have left many questioning how vigorous the testing processes were before the planes were certified and deemed ready to be in the skies.

[4] Adapted from; Mak, Y.T. *Boeing: A Plane Wreck; Corporate Governance Case Studies Volume 9*, 2020. CPA Australia.

	• In the board of 13 directors, the closest person having some technical expertise relevant to the aircraft manufacturing industry is David Calhoun, who used to be the Chief Executive of GE Aircraft Engines. • On 25 September 2019, Boeing announced the addition of a new permanent fixture at Boeing, the Aerospace Safety Committee, with the responsibility of ensuring that the company's products and services are safe. The committee's main objective is to review policies and processes that were in place for the design and development of the airplanes to ensure safety and recommend any changes or improvements to those policies and procedures.
Lessons Drawn:	• In the mad rush to be the first to market, it is the board's essential role to "take a step back" and ensure that management has ticked all the right boxes (i.e. risk management) before the launch of an integral product. • Technical expertise or domain industry experience in the makeup of a board can be one of the most valuable assets a board can have. • The separation of a dedicated risk management committee is proven to be indispensable given the overladen responsibilities of the audit committee.

WHERE? Regional/International perspectives

Alongside Malaysia, selected jurisdictions including Australia and Singapore have also placed emphasis on the establishment of risk management committees in public listed companies premised on the evolving nature of risks in the corporate landscape which necessitates more focused oversight on risks.

Country	Provision(s)
Australia	The board of a listed entity should: (a) have a committee or committees to oversee risk, each of which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, **(Extract of Recommendation 7.1)**

Country	Provision(s)
Singapore	The Board determines the nature and extent of the significant risks which the company is willing to take in achieving its strategic objectives and value creation. The Board sets up a Board Risk Committee to specifically address this, if appropriate. **(Provision 9.1)**

Effectiveness of an Internal Audit Function

MCCG Intended Outcome 11.0
Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

MCCG Practice 11.1
The Audit Committee should ensure that the internal audit function is effective and able to function independently.

MCCG Practice 11.2
The board should disclose:

- whether internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence;
- the number of resources in the internal audit department;
- name and qualification of the person responsible for internal audit; and
- whether the internal audit function is carried out in accordance with a recognised framework.

WHY? The case for change

An internal audit function helps a company to accomplish its goals by bringing an objective and disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes. The internal audit function is essentially the "eyes and ears" of the audit committee, serving as a sounding board on deficiencies in the aforementioned areas and providing advice on the remedial measures to be meted out by the company.

Further reflection

The internal audit function has changed considerably over time to meet the challenges of modern economy and the complexities of business. Stakeholders are increasingly looking to the internal audit function for insights regarding the future and to provide advisory services earlier in the life cycle of business initiatives.

A domestic survey titled "Rethinking Internal Audit" which was based on 200 responses from a broad range of stakeholders in Malaysia revealed that there are heightened expectations for internal audit to be one step ahead to provide value-added insights to the organisation, especially in the context whereby are new challenges and disruptions in the marketplace. Internal auditors are well placed to provide business insights on issues such as technological disruptions, new regulatory requirements and emerging risks. In fact, 76% of the respondents agreed that management is viewing the internal audit function as a valuable business partner in their organisation[1]. To this end, the survey findings iterated that insightful business recommendations require experienced internal auditors with strategic mindset and business specialism.

Likewise, in performing a value-added role, it is important for internal auditors to undertake root cause analyses to enable recommendations to address the source of the weaknesses identified. This certainly represents a room for improvement in the domestic context as a thematic study on the annual reports of 40 public listed companies which was commissioned by Bursa Malaysia Berhad in 2019 together with Institute of Internal Auditors Malaysia identified that there was no mention of root-cause analysis conducted by 83% of the reviewed public listed companies before coming up with recommendations in the internal audit reports[2].

As an enhanced internal audit value proposition, there is also a need to align the audit effort towards issues which matter most to the organisation. Internal audit personnel may not be strategy consultants, but it is important for the audit observations to contain strategic insights into the organisation. The power of technology (e.g. data analytics) can be exploited to enable further efficiency, and to obtain valuable inputs on the state of the business.

[1] *Rethinking Internal Audit 2019*, Institute of Internal Auditors Malaysia & PwC
[2] *Effectiveness of Internal Audit Function: Thematic Review Findings and Key Takeaways 2019*, Bursa Malaysia Berhad and Institute of Internal Auditors Malaysia

Given the significance of this function in safeguarding a company against weaknesses in risk management, internal control and governance, a facilitative environment should be created to enable the internal audit function to carry out its responsibilities in an effective manner.

To this end, the need for listed issuers to establish an internal audit function and the responsibilities of the audit committee in overseeing the effectiveness of this function are well-codified in **Bursa Securities Listing Requirements.**

Paragraph 15.27 of Bursa Securities Listing Requirements

Internal audit

(1) A listed issuer must establish an internal audit function which is independent of the activities it audits.

(2) A listed issuer must ensure its internal audit function reports directly to the audit committee.

Paragraph 15.12(1)(e) and (f) of Bursa Securities Listing Requirements

Without limiting the generality of **paragraph 15.11**[3] above, a listed issuer must ensure an audit committee, amongst others, discharges the following functions:

(1) review the following and report the same to the board of directors of the listed issuer:

(e) the adequacy of the scope, competency and resources of the internal audit function and that it has the necessary authority to carry out its work; and

(f) the internal audit plan, processes, the results of the internal audit assessments, investigation undertaken and whether or not appropriate action is taken on the recommendations.

Note: Extract of paragraph 15.12 of Bursa Securities Listing Requirements pertaining to oversight on internal audit function by the audit committee.

[3] Requirement for audit committee to have written terms of reference

Similar provisions are also encapsulated for financial institutions in **Bank Negara Malaysia's Policy Document on Corporate Governance**. Specifically, stipulations in the said document requires audit committees of financial institutions to oversee the effectiveness of the internal audit function in relation to its scope, procedures and frequency, key audit reports, disagreements between the chief internal auditor and the senior management team as well as the performance evaluation of the function.

*Note: Detailed supervisory expectations on an effective internal audit function are outlined in the **Guidelines on Internal Audit Function for Licensed Institutions issued by Bank Negara Malaysia**.*

Recognising that the value of internal audit lies in the objectivity of its process and the trust that has been placed on this function by stakeholders, regulators have also enumerated prescriptions to enhance transparency in this regard. It is therefore important for companies to appreciate that the disclosed information serves as the basis for constructive dialogue with stakeholders.

Paragraph 15.15(3)(e) of Bursa Securities Listing Requirements

(3) The audit committee report must include the following:

(e) a summary of the work of the internal audit function.

Note: Only requirements pertaining to internal audit function are extracted from the said paragraph

Paragraph 30, Part A, Appendix 9C of Bursa Securities Listing Requirements

The contents of an annual report must include :
a statement relating to the internal audit function of the listed issuer, i.e. whether the internal audit function is performed in-house or is outsourced and the costs incurred for the internal audit function in respect of the financial year.

HOW? The practice in substance

In order for the internal audit function to provide objective assurance on the quality of a company's risk management, internal control and governance processes, it is imperative to ensure that this function is well-equipped to deliver the depth and quality of the work that is expected of it.

Key considerations relating to the application of these Practices **(Practices 11.1 and 11.2 of MCCG)** are discussed below:

What are the key activities undertaken by an internal audit function?

It is the responsibility of the audit committee to decide on the remit of the internal audit function including its objectives and activities. The internal audit function is normally involved in carrying out the following:

- a review and objective evaluation of the governance, risk and control environment of the company and entities across the group;
- a review on the implementation of practices espoused by authoritative promulgations and the governance structure deployed in monitoring the said practices;
- a systematic analysis of business processes to identify the associated controls in place;
- an assessment of how information on fraud and irregularities is reported including providing feedback on adherence to the company's code of conduct and/or code of ethics;
- ad-hoc reviews of other areas where there is a concern that affects financial reporting or a threat on the safeguarding of the company's assets;
- ad-hoc review of strategic transactions (e.g. across the stages of target screening, due diligence, and integration during mergers and acquisitions)
- reviews on adherence to contractual provisions and supply chain requirements;
- reviews on the integrated risk management process covering financial and non-financial risks (including. assessing whether all the risks that may have an impact on stakeholder evaluation and support are considered)
- reviews of the compliance framework and specific compliance issues (e.g. assessment programmes by authorities such as the customs department);
- follow-up visits to determine the status of management implementation of plans to address observations reported in preceding internal audit visits; and
- value-added recommendations for more effective and efficient use of resources within the company.

What are the key attributes of an effective internal audit function?

The salient characteristics which are commonly exhibited by an effective internal audit function are outlined below:

Objective and free from undue influence

Internal audit personnel should be able to exercise objectivity by being free from conflicts of interest or the undue influence of others that will override professional and business judgment.

In order to preserve the independence of this function, the head of internal audit should report directly to the audit committee. The audit committee should also be responsible for deciding on the appointment and removal as well as the performance evaluation and remuneration of those in the internal audit function.

Adequately resourced

The internal audit function should be resourced with adequate manpower and supporting infrastructure, such as auditing tools and knowledge repositories. The resources and budget allocated should be proportionate with the envisaged extent and complexity of the audit work, in line with the company's size and circumstances.

The audit committee should ensure that internal audit personnel, particularly the head of internal audit is competent to carry out the work.

Appropriately positioned

The internal audit function should be appropriately positioned within the company to be recognised as an authoritative voice. In this regard, as highlighted in **Guidance to Practice 11.1 of MCCG**, the audit committee should ensure that the head of internal audit has sufficient standing and authority to discharge his or her functions effectively.

The function should be accorded with unrestricted access to the necessary information, records, physical properties and personnel to perform its agreed-upon objectives and responsibilities.

Aligned with the strategies and risks of the company

The internal audit coverage should be tailored in response to changes in the company's business, risks and operations.

The evaluation performed by the internal auditor should be contextualised to the business and industry, identify root-causes of issues and offer new insights with a consideration of the future impact.

What are the key factors that should be taken into account in evaluating the capability and adequacy of resources of the internal audit function?

In evaluating the resources of the internal audit, due cognisance should be given (as a minimum) to the aspects of people and process.

As mentioned in the previous page, the quality of the people (i.e. internal audit personnel) should reflect the extent and complexity of internal audit coverage. This would, amongst others, entail:

- the relevant academic and professional accreditation;
- the experience that is crucial to enable them to carry out internal audit work;
- reasonably strong interpersonal skills in discussing with the auditee and writing reports, articulating issues in no uncertain terms;
- maturity of the personnel in engaging with management on contentious issues encountered when carrying out the internal audit projects; and
- the ability to provide recommendations that are not only practical for implementation but also take into consideration the "cost-benefit" aspects of the suggestions.

In terms of process, the evaluation should focus on how structured and robust is the approach deployed by internal audit personnel in achieving the internal audit objective. Internal audit plans should be clear and objective enough to enable the personnel to execute the work procedures and to obtain as well as evaluate the audit evidence for reliability and sufficiency. The adoption of a professionally recognised framework such as the International Professional Practices Framework ("IPPF") by the Institute of Internal Auditors would also go a long way in fostering the need for proper adherence to independence and ethical standards as well as technical standards on execution of internal audits and quality assurance.

Over the years, it was observed that there continues to be a substantial number of listed issuers which recorded a considerably low internal audit fee (i.e. below RM 24,000 per annum)[4]. As the cost incurred for the internal audit function is indicative of how much emphasis the listed issuer places on the function that provides independent assurance on risk management, control, and governance processes, the resources and budget allocated should be proportionate with the envisaged extent and complexity of the internal audit work, in line with the listed issuer's size and circumstances.

*Note: A sample exhibit outlining a checklist to evaluate the internal audit function is provided in **Appendix VII** of this **Pull-out**.*

Should an internal audit function be conducted in-house or outsourced[5]?

Companies may choose to have an in-house internal audit function or outsource it, depending on the circumstances of the company.

It is commonplace for audit committees to consider outsourcing the internal audit work when there is a lack of specialised expertise to carry out the audit. For example, an in-house internal audit function may not have the appropriate information technology skills to conduct an audit of information technology systems, thus necessitating the need to commission specialised information technology auditors to perform the necessary audit work.

In the event the audit committee decides to outsource the internal audit function, it is pertinent that the audit committee assesses the remit of the outsourced internal audit provider to ensure that relevant criteria, such as independence, qualification, skills and experience, adequacy of resources and remuneration have been considered for the work to be carried out effectively.

[4] *MSWG-ASEAN Corporate Governance Scorecard* 2018, 2019 and 2020
[5] References to outsource includes outsourcing in full or in part ("co-source").

Key considerations in outsourcing the internal audit function:

- assessment of outsourcing risks (e.g. contracts and confidentiality agreements including any sub-contracting arrangements);
- scope of internal audit work to be outsourced;
- service provider selection process including the independence, qualification, skills and experience, as well as knowledge;
- adequacy of resources deployed and remuneration of the outsourced service provider;
- internal audit framework adopted by the outsourced service provider;
- roles and responsibilities of the outsourced service provider;
- access to information, records, physical properties, and personnel as well as the reporting workflow; and
- effectiveness of the internal audit service rendered by the outsourced service provider and continuity of such service (for subsequent outsourcing arrangements).

How do the disclosures in relation to "number of resources" and "person responsible for internal audit" (in Practice 11.2 of MCCG) vary for an outsourced function vis-à-vis an in-house function?

Disclosure on "number of resources" and "person responsible for internal audit" should be made in the manner set out below.

If the function is conducted in-house, disclosure shall include:

- name and qualification of the head of internal audit; and
- number of resources (number of personnel in the internal audit department).

or

If the function is outsourced, disclosure shall include:

- name of the outsourced service provider/external firm;
- name and qualification of the lead individual in charge of the engagement (from the outsourced service provider/external firm); and
- number of resources deployed by the outsourced service provider/external firm for the said engagement.

As for partially outsourced (co-sourced) internal audit engagements, a more prudent approach can be adopted by providing disclosure on both the name and qualification of the head of internal audit as well as that of the lead individual in charge of the engagement from the outsourced service provider/external firm. A statement should also be made on the nature of work that is outsourced.

The following illustrative disclosure outlines an example with regards to the following (in-house internal audit function):

- name and qualification of the head of internal audit *(note: experience of the said individual was also provided)*; and
- number of resources *(note: general description of their qualifications was also provided)*.

Illustrative disclosure (in-house internal audit function)

Disclosure on the name and qualification of the head of internal audit:

Ms. Say Nee was appointed as the Acting Head of Internal Audit of Singapore Press Holdings Limited ("SPH") in October 2014. She subsequently took over as Division Head in April 2015.

Ms. Say Nee has been with the Division for 10 years, having joined in October 2005. Say Nee's 15 years of experience in the profession spanned across both public and commercial sectors. She began her career in the Auditor-General's Office in 2000, where she was involved in the financial audit and system controls review at the Ministry of Manpower and Central Provident Fund Board, after graduating from Nanyang Technological University with a Bachelor of Accountancy degree. She was an Internal Auditor with United Engineers Ltd before joining SPH.

Disclosure on the number of resources:

IAD is staffed by nine audit executives, including the Head of Internal Audit. Most of the IAD staff have professional qualifications, and are members of the Institute of Internal Auditors, Inc. ("IIA"). Some are qualified IT auditors and/or Certified Fraud Examiners.

Source: Annual Report of Singapore Press Holdings Limited for the financial year end 31 December 2015

In addition to the number of resources in the internal audit department and the name and qualification of person responsible for internal audit, boards should also disclose the following elements as stated in **Practice 11.2 of MCCG**:

- whether the internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence (e.g. annual confirmation by the head of the internal audit to the audit committee on the objectivity and independence of the internal audit function); and
- whether the internal audit function is carried out in accordance with a recognised framework (e.g. IPPF).

Is there a distinction in disclosure requirement for the cost of internal audit [paragraph 30, Part A, Appendix 9C of Bursa Securities Listing Requirements] when the internal audit is outsourced as opposed to being conducted in-house?

The cost is to be disclosed regardless of whether the internal audit function is performed in-house or outsourced. Such cost should include all costs involved in performing the internal audit function, including but not limited to salary of personnel, overhead expenses (e.g. expenses on training and knowledge repositories) and other ancillary expenses incurred.

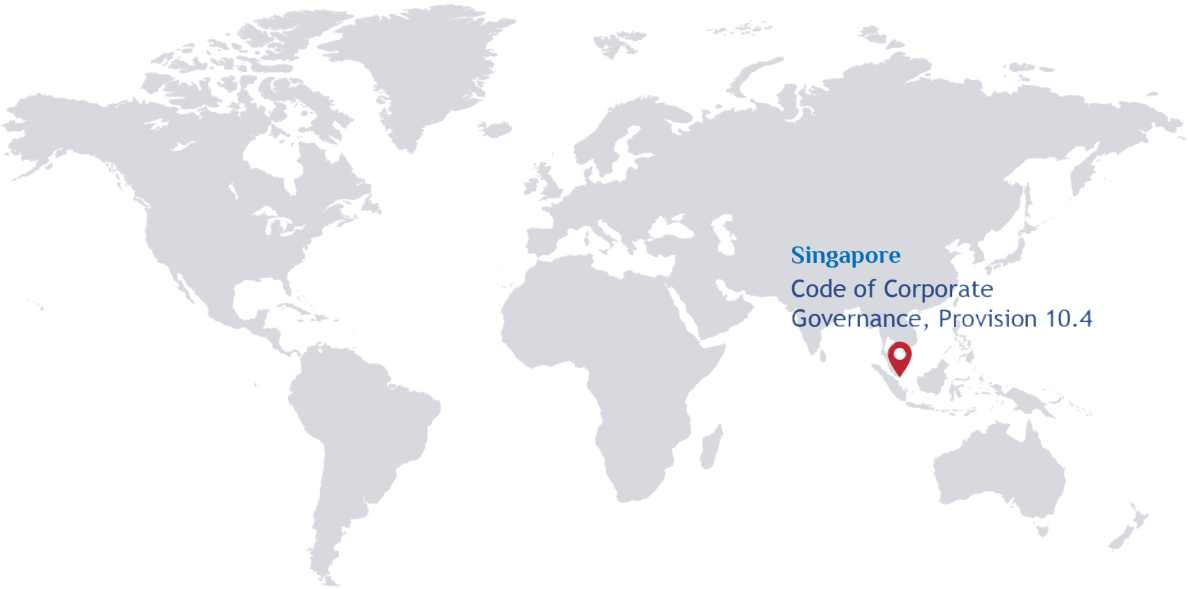
What should a disclosure on the summary of the work of the internal audit function [paragraph 15.15(3)(e) of Bursa Securities Listing Requirements] include?

In providing disclosures on the summary of activities performed by the internal audit function, companies should provide meaningful insights into the actual areas that were audited during the financial year and how internal audit performed its function. A mere statement that the "internal audit function has reviewed the state of internal control of various operating cycles within the company" would not be particularly useful for stakeholders. The following elements (non-exhaustive) can be encapsulated in the annual reports of listed issuers to exhibit good disclosures in this regard:

- number of internal audit assignments completed during the year and a statement as to whether these were aligned to the audit plan;
- specific areas that were audited such as finance, sales, marketing and procurement, with details of the specific aspects audited;
- a statement or discussion that the scope of internal audit engagements were aligned with the companies' risk management profile (i.e. the audited areas were identified as key risk areas);
- a statement or discussion that the internal audit's reports were deliberated at the senior management level and that action plans were put in place to complete the necessary preventive and corrective actions;
- a statement or discussion that the internal audit's findings and management's responses were tabled to the audit committee to ensure that management undertakes the agreed remedial actions;
- detailed breakdown of data to show how many internal audit personnel were involved in specific areas audited; and
- analysis of the variations in the internal audit costs or fees with explanations.

WHERE? Regional/International perspectives

Premised on the importance of a robust internal audit process, many jurisdictions have enumerated provisions for public listed companies to establish an internal audit function with the audit committee being responsible for immediate oversight of this function. As in the case of Malaysia, selected jurisdictions such as Singapore have also provided emphasis on the need for the internal audit to have appropriate standing within the company.



Country	Provision(s)
Singapore	The primary reporting line of the internal audit function is to the AC, which also decides on the appointment, termination and remuneration of the head of the internal audit function. The internal audit function has unfettered access to all the company's documents, records, properties and personnel, including the AC, and has appropriate standing within the company. ***(Provision 10.4)***

Appendices

Appendix I: List of Indicators to be Aware of and Questions to be Posed to Management – Financial Reporting and Impact of other Key Disclosures on Financial Reporting

The questionnaire, which is not meant to be exhaustive, covers a broad range of issues, some of which may not be applicable or only relevant to certain types of companies. Accordingly, the scope and nature of the questions should be adapted to suit the circumstances of the company's activities, relevant legislation (including overseas reporting requirements) and perceived contentious reporting issues. The questionnaire would typically be completed by the chief financial officer.

The following is a list of indicators that the audit committees should be aware of in relation to financial reporting:

- sharp fall in the company's share price
- overly complex transactions and company structures
- deterioration in the collection of debts and/or quality of debtors
- increase in amounts owing to creditors
- ongoing or previous investigations by regulators
- unusual rapid growth
- regular deferral of capital expenditure
- unrealistic earning expectations by the financial community
- excessive or inappropriate performance-based compensation
- gearing or liquidity forecast to be a problem
- loan agreement covenants not being complied with
- results appear unrealistically high in the given industry and economic conditions
- key ratios deteriorating or differing greatly compared to its peers
- last minute transactions that resulted in significant revenue
- delay in the issuance of financial reports

Directors should consider what further actions or information they require on financial reporting and tailor the questionnaire accordingly. For example, all "No" answers may require further explanation. Also, directors may wish to organise a series of detailed presentations from relevant senior management on specific issues.

A. Overall

1. Do the company's financial statements comply in all respects with applicable approved accounting standards and other relevant reporting requirements? Yes ☐ No ☐

B. Accounting policies

2. Are there any new applicable approved accounting standards or other authoritative pronouncements in the current period Yes ☐ No ☐

3. Are there any changes to the company's accounting policies this year? Yes ☐ No ☐

C. Going concern

4. Does the company or any of its controlled entities have a liquidity or solvency problem? Yes ☐ No ☐

5. Have cash flow forecasts been prepared to determine whether the company's liabilities can be met as and when they fall due? Yes ☐ No ☐

D. Cash

6. Have bank reconciliations been performed regularly and reviewed by an appropriate person? Yes ☐ No ☐

7. Are any cash balances of controlled entities or those held in foreign countries subjected to any restrictions? If yes, please describe. Yes ☐ No ☐

E. Investments

8. Is the company trading in shares? Yes ☐ No ☐

9. Are there established authority limits covering investments? Yes ☐ No ☐

10. Have there been incidences where the limits of authority were not adhered to? Yes ☐ No ☐

F. Account receivable

11. Are there any new types of transactions giving rise to complex revenue recognition considerations? Yes ☐ No ☐

12. Is the provision for doubtful receivables adequate? Yes ☐ No ☐

13. Has adequate provision been raised for sales returns? Yes ☐ No ☐

14. Has the company observed a correct cut-off for its sales transactions? Yes ☐ No ☐

G. Inventories

15. Do the relationships between inventory movements, inventories at year-end, trade receivables and sales revenue appear reasonable? Yes ☐ No ☐

16. Are there material adjustments made to the book inventory to reflect the physical inventory? Yes ☐ No ☐

17. Is the company's method of valuing inventories consistent with most companies in the industry and in line with applicable approved accounting standards? Yes ☐ No ☐

18. Is the provision for obsolete and excess inventory adequate? Yes ☐ No ☐

19. Have all anticipated variations and claims relating to construction contracts and other service contracts been considered in the determination of contract outcome? Yes ☐ No ☐

20. Have expected losses on construction contracts and other service contracts been recognised immediately? Yes ☐ No ☐

21. Have profits on construction contracts and other service contracts been properly determined in accordance with appropriate accounting standards? Yes ☐ No ☐

H. Property, plant and equipment

22. Have all major acquisitions of property, plant and equipment been subjected to a duly authorised approval process? Yes ☐ No ☐

23. Has there been any valuation conducted on the land and buildings in accordance with the applicable approved accounting standards and if so, is it appropriately disclosed in the financial statements, where required? Yes ☐ No ☐

24. Are the useful lives and methods used to depreciate plant and equipment reasonable? Yes ☐ No ☐

25. Has a review of idle plant and surplus premises, including leased assets and premises, been performed for possible impairment? Yes ☐ No ☐

26. If borrowing costs have been capitalised in property, plant and equipment, has the capitalisation been carried out as allowed by applicable approved accounting standards? Yes ☐ No ☐

27. If the company has capital commitments on the purchase of property, plant and equipment, have appropriate disclosures required by the Companies Act 2016 been made in terms of amounts approved but not contracted for; and amount contracted but not provided for in the financial statements? Yes ☐ No ☐

28. Does the company periodically take a physical inventory of property, plant and equipment? Yes ☐ No ☐

29. Were there any significant adjustments made to the carrying value of property, plant and equipment? Yes ☐ No ☐

    If yes, provide details of the adjustments:

I. Intangible assets

30. Have the intangible assets been impaired to reflect the useful life of the asset? Yes ☐ No ☐

31. Is the impairment policy clearly disclosed in the financial statements? Yes ☐ No ☐

J. Other non-current assets

32. Do all other non-current assets satisfy the definition of "asset" as defined in the applicable approved accounting standards? Yes ☐ No ☐

33. Is the impairment policy appropriate? Yes ☐ No ☐

34. Does the company have contingent assets and have these been disclosed according to applicable approved accounting standards? Yes ☐ No ☐

K. Liabilities

35. Have provisions only been raised when there is a legal, equitable or constructive obligation present as a result of past transactions or events? Yes ☐ No ☐

36. Are any assets pledged to secure borrowings? Yes ☐ No ☐

37. If yes, have they been properly disclosed in the financial statements? Yes ☐ No ☐

38. Has the company entered into any significant sale and lease back transactions during the financial year and if so, is the transaction appropriately recorded in accordance with applicable approved accounting standards? Yes ☐ No ☐

39. Has the company adequately disclosed any contingent liabilities and off-balance sheet items according to applicable approved accounting standards? Yes ☐ No ☐

L. Shareholders' equity

40. Have there been any share buybacks during the period? Yes ☐ No ☐

41. Has the amount of any asset revaluation reserve attributable to assets disposed of been transferred to retained earnings or to a capital reserve, as appropriate? Yes ☐ No ☐

42. Have issues of financial instruments, other than ordinary shares, been properly classified as equity or debt in accordance with applicable approved accounting standards? Yes ☐ No ☐

M. Revenue and expenses

43. Are the methods of recognising major items of income/expense appropriate in the circumstances? Yes ☐ No ☐

44. Are the company's methods of recognising income/expense consistent with methods used in the industry? Yes ☐ No ☐

45. Has the gross profit on sales percentage changed significantly during the year? Yes ☐ No ☐

46. Are the financial results of the company in line with analysts' expectations? Yes ☐ No ☐

47. Have intra-group transactions been appropriately eliminated, including unrealised profits? Yes ☐ No ☐

N. Taxation

48. Has the current tax liability in the financial report been calculated in accordance with current income tax laws and applicable approved accounting standards, including deferred tax? Yes ☐ No ☐

49. Have the tax calculations been reviewed by a party independent of the preparer and who has appropriate knowledge of the tax requirements? Yes ☐ No ☐

50. Are there any significant tax balances in dispute? Yes ☐ No ☐

51. Has the effective tax rate been reconciled with the statutory tax rate? Yes ☐ No ☐

O. Acquisitions/disposals

52. Have all acquisitions and disposals been subjected to due diligence procedures and board's/ shareholders' approvals, where required? Yes ☐ No ☐

53. Has the company carried out post acquisition reviews to assess the actual performance against the proposed business case? Yes ☐ No ☐

54. Have all discontinuing operations been properly identified and disclosed only in accordance with applicable approved accounting standards? Yes ☐ No ☐

P. Earnings per share

55. Have any changes in capital structure or accounting policies during the year significantly affected the earnings per share? Yes ☐ No ☐

56. Have basic and diluted earnings per share been accurately computed and disclosed in accordance with applicable approved accounting standards? Yes ☐ No ☐

Q. General

57. Are assumptions regarding the determination of carrying value of assets and liabilities subjected to significant risks? Yes ☐ No ☐

58. Have all major suspense, clearing or inter-office general ledger accounts been reconciled and cleared at reporting date? Yes ☐ No ☐

59. Are there any significant post reporting date events that have a bearing on the financial report? Yes ☐ No ☐

R. Bursa Securities Listing Requirements

60. Does the annual report comply with all of the disclosure requirements in the Bursa Securities Listing Requirements disclosures? Yes ☐ No ☐

61. Do the quarterly reports announcements contain the required disclosures as prescribed by the Bursa Securities Listing Requirements and applicable approved accounting standards? Yes ☐ No ☐

62. Is there sufficient clarity in the disclosures made pertaining to management of economic, environmental and social risks and opportunities in terms of governance, scope, materiality and management approach within the sustainability statement? Yes ☐ No ☐

S. Directors' Report

63. Have all disclosures required by the Companies Act 2016 been made in the directors' report, including principal activities, review of operations, significant changes in the state of affairs, etc.? Yes ☐ No ☐

Appendix II: External Auditor Evaluation Form

This sample exhibit, which is not exhaustive in nature, illustrates key questions which may be used to assist the process for the evaluation of external auditor, prior to its appointment and/or re-appointment. The external auditor by definition includes its network member firms and companies based on the By Laws (on Professional Ethics, Conduct and Practice) by the Malaysian Institute of Accountants.

This sample evaluation form may be customised, depending on the peculiar circumstances of the companies concerned.

The Evaluation Form provides ratings from one (1) to four (4), or 'yes' and 'no', with the indicators illustrated below, to be responded in relation to the nature of the questions:

4 ☐	3 ☐	2 ☐	1 ☐
Yes, always	Yes, most of the time	Yes, but seldom	No
or			
4 ☐	3 ☐	2 ☐	1 ☐
Above average	Average	Below average	Poor
or			
Yes ☐			No ☐
Yes			No

Where a particular criterion is deemed not applicable, it shall be indicated as 'Not Applicable' in the comment box.

Name of External Auditor:

Section A: Calibre of external audit firm

1. Are there recent or current litigation cases against the firm?

Yes ☐			No ☐
Comment:			

2. Does the external audit firm have the size, resources and geographical coverage required to audit the company?

Yes ☐			No ☐
Comment:			

Section B: Quality processes/performance

3. How are the quality control processes maintained in the external audit firm? Factors to be considered include the level and nature of review procedures, the approach to audit judgments and issues, independent quality control reviews and the external audit firm's approach to risk.

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

4. How have key risks, including fraud risk and financial misstatement risk, being discussed and factored into the audit plan?

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

5. How is the external audit firm's process for internal review of accounting judgments, including an understanding of the key issues?

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

6. How are relevant specialists/experts being employed by the external audit firm and how are these linked to the audit process?

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

7. How multiple-location audits and/or overseas audits are controlled and are their audit effectiveness regarded as consistent internationally?

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

8. Are the reporting processes for subsidiary audit teams[1] effective?

Yes ☐			No ☐
Comment:			

[1] Group engagement team (i.e. audit team from the parent company's external auditor) or component external auditor (i.e. audit team from a different external audit firm) that performs the external audit on the subsidiaries of the parent company.

9. How is the external audit firm's approach to seeking and assessing management representations?

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

10. In cases where there are any differences in views between management and the external auditor, does the external auditor communicate its views clearly and accurately from an accounting perspective?

Yes ☐			No ☐
Comment:			

11. Does the audit committee agree with the bases and extent of reliance external auditors place on management and internal audit testing, if any? (Comment as 'Not Applicable' if none).

Yes ☐			No ☐
Comment:			

12. Comment on the external auditor's working relationship with internal audit.

Comment:

13. Did the auditors meet the performance targets, i.e. audit scope, audit plan, timing, etc.?

Yes ☐			No ☐
Comment:			

14. Does the external audit function include detection and investigation of fraud? If it does not, please comment on its role in relation to investigation of fraud?

Yes ☐			No ☐
Comment:			

Section C: Audit team

15. Rate whether audit engagement partner and individuals assigned to the external audit team have the requisite skills and expertise, including industry knowledge, to effectively audit this company and meet its requirements.

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

16. Is the lead engagement partner able to provide a clear and understandable explanation on auditing and accounting issues faced by the company?

Yes ☐			No ☐
Comment:			

17. How is the audit engagement partner's/other senior personnel's involvement in the audit process and is this sufficient?

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

Section D: Independence and objectivity

18. Does the external audit firm communicate to the company on any matters which might reasonably be perceived as affecting the independence of the firm and/or of individuals assigned to the external audit team (e.g. provision of services to entities that are related to directors and controlling shareholders of the company)?

Yes ☐			No ☐
Comment:			

19. Does the external audit firm have adequate key member succession plans in place, which meet the relevant audit partner rotation requirements and facilitate the maintenance of objectivity?

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

20. Is the audit committee of the opinion that the external audit function is independent and objective?

Yes ☐			No ☐
Comment:			

21. Prior to approval by the audit committee on non-audit services to be rendered by the external audit firm, does the lead engagement partner explain and discuss safeguards in place to protect against impairment to independence and objectivity of the external audit firm?

Yes ☐			No ☐
Comment:			

22. Does the external auditor communicate to the audit committee about new and applicable accounting practices and auditing standards and its impact on the company's financial statement?

Yes ☐			No ☐
Comment:			

Section E: Audit scope and planning

23. Does the external audit firm, with the audit engagement partner present, agree to the audit scope and plan with the audit committee?

Yes ☐			No ☐
Comment:			

24. Is the external audit scope and plan adequate to address company/industry-specific areas of accounting risks, audit risks and financial reporting risks faced by the company?

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

25. In planning the audit, are adequate considerations given to geographical coverage, resource allocation, level of audit testing and nature of audit reports issued at each location?

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

26. Is specialist input to the audit in areas such as taxation, pensions and regulation at an appropriate level?

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

27. Are all key operations covered by the external audit?

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

28. Did the auditors maintain or update the audit plan to respond to changing risks and circumstances, in a manner agreeable and determined appropriate by the audit committee?

Yes ☐			No ☐
Comment:			

Section F: Audit fees

29. How does the audit fee compare with other similarly sized companies in this industry?
(Note: In this context, a rating of "4" indicates a relatively high fee whilst a rating of "1" indicates a relatively low fee. A fee that is either too high or too low can be of concern).

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

30. Rate how the differences between actual and estimated fees are handled.

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

31. Is an assessment conducted on the amount and relationship of audit and non-audit fees and services?

Yes ☐			No ☐
Comment:			

32. Does the audit committee consider the fee for the external audit practical and sufficient for the scope, size, complexity and risks of the company?

Yes ☐			No ☐
Comment:			

Section G: Audit communications

33. Does the external audit firm meet freely, regularly, and on a confidential basis with the audit committee, including being able to communicate to the audit committee if not being provided with sufficient cooperation during the audit?

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

34. Does the external audit engagement partner maintain professional and open dialogues with the audit committee and communicate findings and discussions in a frank and complete manner (including matters on management's reporting process, internal control over financial reporting, etc.)?

Yes ☐			No ☐
Comment:			

35. Does the external audit firm advise the audit committee about significant issues and new developments regarding risk management, corporate governance, financial accounting and related risks and control matters pertaining to the company on a timely basis?

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

36. Does the external auditor discuss the critical accounting policies and whether the accounting treatment is conservative or aggressive?

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

37. Does the external audit firm discuss with the audit committee the quality of the company's financial reporting, including the reasonableness of accounting estimates and judgments?

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

38. Does the external audit firm resolve accounting issues in a timely manner?

4 ☐	3 ☐	2 ☐	1 ☐
Comment:			

39. Does the external audit firm seek feedback on the quality and effectiveness of the service they are providing?

Yes ☐			No ☐
Comment:			

Evaluation carried out by:

Name:
Designation:

Checked and compiled by:

Name:
Designation:

Appendix III: Matters to be Tabled to the Audit Committee on Related Party Transactions

The following is an illustrative list. It is not exhaustive but is intended to stimulate thoughts as to the type of matters that should be tabled to the audit committee in relation to the related party transactions/recurrent related party transactions.

i. a description of the transaction;

ii. parties to the transaction, including who the related party is and the relationship involved with the listed issuer or its subsidiary;

iii. relevant details of the transaction, including value and percentage ratio, calculations based on the Listing Requirements. The percentage ratio should be calculated against all methods listed in Bursa Securities Listing Requirements and the calculations disclosed to the audit committee;

iv. the nature of the transaction (financial or otherwise), including an explanation of the related party's interest and if it is a recurrent related party transaction, how the transaction meets the relevant criteria for being considered a recurrent related party transaction;

v. whether advisors and/or valuers are to be appointed;

vi. whether any other approvals are required;

vii. rationale for the transaction and cost and benefit to the company/group;

viii. comparative quotes, if available, including sources, methods and procedures through which transaction prices are determined;

ix. justification as to why the transaction must be undertaken with the related party, for example that the services provided by a related party cannot be obtained elsewhere or if need be, a current independent valuation report annexed for that purpose;

x. an explanation of how "arm's length" was maintained during negotiations and in ensuring negotiations and terms to the related party transactions/recurrent related party transactions were carried out were on a commercial basis;

xi. an explanation of why the terms are considered fair and reasonable;

xii. an explanation of why the transaction is considered in the best interest of the company/group;

xiii. an explanation of why the terms are not detrimental to the minority shareholders;

xiv. if the transaction has gone through the usual tender process, to state so and the recommendations of the tender committee;

xv. management recommendations;

xvi. revision/changes to the related party transactions/recurrent related party transactions policy and procedures relating to compliance with mandates arising from the nature and volume of transactions;

xvii. where the transaction relates to any loans, inter-company deposits, advances or investments made or given by the company or its subsidiary:

   a. details of the source of the funds in connection with the proposed related party transaction

   b. where any financial indebtness is incurred to make or give loans, inter-company deposits – nature of indebtness, cost of funds, and tenure

   c. applicable terms, including covenants, tenure, interest rate and repayment schedule, whether secured of unsecured and if secured, the nature of security

   d. the purpose for which the funds will be utilised by the ultimate beneficiary of such funds pursuant to the related party transaction

Note: Each type of related party transaction with a single party should be disclosed separately to the audit committee and there should not be "clubbing" or "netting" of transactions of the same type. Related party transactions with the same counter party and of the same type may be aggregated.

Appendix IV: Financial Literacy Questionnaire

Financial literacy, which signifies the ability and competency to read, analyse and interpret financial statements, including a company's statement of financial position, statement of comprehensive income, statement of changes in equity, cash flow statement, notes to the statements, cost accounting, budgets and management's discussion and analysis can be acquired through education either formal or self-guided.

Below is a sample questionnaire to gauge the level of financial literacy of an audit committee member. If the answer is "No", that does not mean that the member cannot serve but that training and education for the said audit committee member become imperative.

Name of director/candidate: _____

1.	Ability to read, analyse and interpret the company's financial statements.	Yes ☐	No ☐
2.	General understanding of approved accounting standards relevant to the company's business environment and related industry.	Yes ☐	No ☐
3.	Competency to understand accounting principles, for example revenue recognition, valuation of assets, provisions, accruals, etc.	Yes ☐	No ☐
4.	Ability to assess whether management's judgments/estimates in financial statements are consistent with the industry.	Yes ☐	No ☐
5.	Ability to assess clarity and completeness of disclosures in the financial statements (e.g. significant judgments have been explained in the notes to the financial statements and consistency of information in the financial statements with other parts that constitute the annual report).	Yes ☐	No ☐
6.	Ability to analyse financial statements to quantify the overall financial condition of the company, i.e. use of profitability ratios, liquidity ratios, debt ratios, etc.	Yes ☐	No ☐
7.	Ability to interpret the implications of significant or non-recurring transactions, events or adjustments made in the financial statements.	Yes ☐	No ☐
8.	Ability to understand, analyse and enquire about potential manipulation of financial reporting i.e. did management make an estimate (or change an accounting treatment) to meet earnings target.	Yes ☐	No ☐

9. Ability to assess whether the external audit work plan focuses on the company's key audit risks (i.e. the risk that the external auditor expresses inappropriate audit opinion when financial statements are materially misstated). Yes ☐ No ☐

10. Ability to assess whether internal controls are designed and maintained in a way that keeps pace with economic and business conditions, changes in the company's operations and emerging financial reporting standards. Yes ☐ No ☐

11. Ability to assess whether internal audit function has identified, upon engagement with internal and external stakeholders, key current and emerging risks facing the company in developing the internal audit plan (e.g. staff well-being and talent management, climate change, cyber security and data privacy). Yes ☐ No ☐

12. Ability to understand the financial and non-financial risks and material matters impacting the company, through clarity on the company's risk profile, and how they in turn impact the financial statements. Yes ☐ No ☐

13. What seems to be the main cause for significant or non-recurring transactions or financial reporting adjustments? Please state below and the rationale thereof.

_____

_____

14. Please provide an example of a potential red flag that can adversely affect the quality of financial statements.

_____

_____

15. What are the purposes of holding private meetings between the audit committee and the auditors, both external and internal, without the presence of any other directors and employees?

_____

_____

Appendix V: Questions to be Posed to Management – Controls and Compliance

This sample exhibit, which is not exhaustive in nature, illustrates key questions that the board may require senior management to complete or discuss.

Additional questions may need to be included, depending on the peculiar circumstances of the companies concerned.

Reference for additional questions can be made to the **Appendix 2 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers** which is issued by the Taskforce on Internal Control with the support and endorsement of Bursa Malaysia Securities Berhad.

The Evaluation Questionnaire provides ratings of 'yes' and 'no', with the indicators illustrated below, to be responded in relation to the nature of the questions:

Yes ☐	No ☐

Where a particular criterion is deemed not applicable, it shall be indicated as 'Not Applicable' in the comment box.

Section A: Overall control environment

A.1 Identification and evaluation of business risks

1. Are the company's business risks identified and assessed on an ongoing basis?

Yes ☐			No ☐
Comment:			

2. Do the company's accounting policies appropriately reflect the nature of its operational and business risks?

Yes ☐			No ☐
Comment:			

3. Are employees informed of what is required of them to act in the best interest of the company so as to achieve its strategic objectives?

Yes ☐			No ☐
Comment:			

A.2 Internal controls

4. Are delegations of authority and responsibility to individuals appropriately determined and notified?

Yes ☐			No ☐
Comment:			

5. Are internal controls documented, approved and communicated to employees?

Yes ☐			No ☐
Comment:			

6. Does any one person initiate and approve significant transactions? If yes, does this represent an unacceptable level of risk?

Yes ☐			No ☐
Comment:			

7. Are there policies on competitive bidding for all significant purchases and contracts?

Yes ☐			No ☐
Comment:			

8. Is there a response plan for prompt and effective action when fraud or an illegal act is discovered?

Yes ☐			No ☐
Comment:			

A.3 Information systems and cybersecurity

9. Are computers, programs and data adequately protected from improper use, loss or destruction?

Yes ☐			No ☐
Comment:			

10. Have employees been informed of their responsibilities and accountabilities relating to the secure and confidential use of information technology assets, including data?

Yes ☐			No ☐
Comment:			

11. Have company officers assessed the business impact in the event of a computer breakdown resulting in a sustained loss of processing capability?

Yes ☐			No ☐
Comment:			

12. Is there a disaster recovery/contingency/business continuity plan, which is periodically tested?

Yes ☐			No ☐
Comment:			

13. Is the infrastructure and senior personnel team adequately equipped and competent to face a cyber-attack/breach by external hackers?

Yes ☐			No ☐
Comment:			

14. In the event of a large-scale cyber-attack, are there clear and adequate procedures on reporting to the board?

Yes ☐			No ☐
Comment:			

A.4 Insurance

15. Is there adequate insurance coverage over assets and potential liabilities, in terms of perils covered and sum insured?

Yes ☐			No ☐
Comment:			

16. Have all known reportable incidents, circumstances or events that may give rise to an action against the company reported to the insurers and company lawyers?

Yes ☐			No ☐
Comment:			

A.5 Communications

17. Is there a defined and approved media policy that includes discussions on performance, strategies and progress with market analysts, media rating agencies and similar bodies?

Yes ☐			No ☐
Comment:			

18. Do procedures exist to ensure that all relevant matters are reported to Bursa Malaysia Securities Berhad, Securities Commission Malaysia, Companies Commission of Malaysia, Bank Negara Malaysia, etc.?

Yes ☐			No ☐
Comment:			

A.6 Corporate code of conduct

19. Does the company have a policy on the establishment and maintenance of appropriate ethical standards?

Yes ☐			No ☐
Comment:			

20. Does the company have appropriate procedures to continuously inform and update its employees of the company's ethical standards and monitor their performance?

Yes ☐			No ☐
Comment:			

Section B: Other regulatory areas

B.1 Tax & duties

21. Has the company complied with relevant tax legislations?

Yes ☐			No ☐
Comment:			

22. Have all tax payments been paid on time?

Yes ☐			No ☐
Comment:			

23. Have tax issues been considered in all due diligence procedures for acquisitions and divestments, including tax implications on dividends paid by the company?

Yes ☐			No ☐
Comment:			

24. Have all relevant employees been adequately trained on tax matters?

Yes ☐			No ☐
Comment:			

B.2 Environmental, social and governance (ESG) risks

25. Is there a formal ESG policy and roadmap endorsed by senior management and directors?

Yes ☐			No ☐
Comment:			

26. Is ESG integrated into the overall risk management and internal controls framework of the company?

Yes ☐			No ☐
Comment:			

27. Have significant ESG aspects or impacts been identified and processes put in place to address the aspects?

Yes ☐			No ☐
Comment:			

28. Have ESG provision and the company's obligations under legislation been identified?

Yes ☐			No ☐
Comment:			

29. Have the directors been made aware of all ESG or sustainability reporting requirements under legislation?

Yes ☐			No ☐
Comment:			

30. Does the annual report disclose the details of the company's performance in relation to ESG activities?

Yes ☐			No ☐
Comment:			

31. Is management adequately addressing ESG risks in its risk reporting in the board?

Yes ☐			No ☐
Comment:			

32. Does the risk register consider ESG risks?

Yes ☐			No ☐
Comment:			

Section C: Secretarial

33. Have all required documents, including annual returns been lodged with the Companies Commission of Malaysia?

Yes ☐			No ☐
Comment:			

34. Have all relevant Bursa Securities Listing Requirements been complied with?

Yes ☐			No ☐
Comment:			

35. Have certificates of title for all owned properties, trademarks, patents, intellectual property, etc., been verified and safely stored?

Yes ☐			No ☐
Comment:			

36. Have all property lease agreements, contracts, agreements, etc., been approved in accordance with delegated authorities and reviewed by legal experts?

Yes ☐			No ☐
Comment:			

37. Have all dividends been declared and paid only in accordance with Companies Act 2016 and the company's constitution?

Yes ☐			No ☐
Comment:			

38. Have all share issues, buybacks and cancellations been approved by the board/shareholders, entered in the registers and notifications provided to Bursa Malaysia Securities Berhad and Companies Commission of Malaysia?

Yes ☐			No ☐
Comment:			

Checked and compiled by:

_____

Name:
Designation:

Appendix VI: Examples of Risk Indicators

The following is an illustrative list. It is not exhaustive but is intended to stimulate thoughts in relation to risk indicators. The categorisation of risks are also subjective in nature and are only outlined as a guidance.

Business/Operational

- high turnover of senior management and staff;
- exposure to rapid technological changes;
- industry "softness" or downturns;
- deteriorating employee morale;
- over-ambitious growth goals;
- lack of transparency in the business model and purposes of transactions;
- significant projects having a strategic objective or high market profile such as acquisitions or information technology system implementation.

Financial

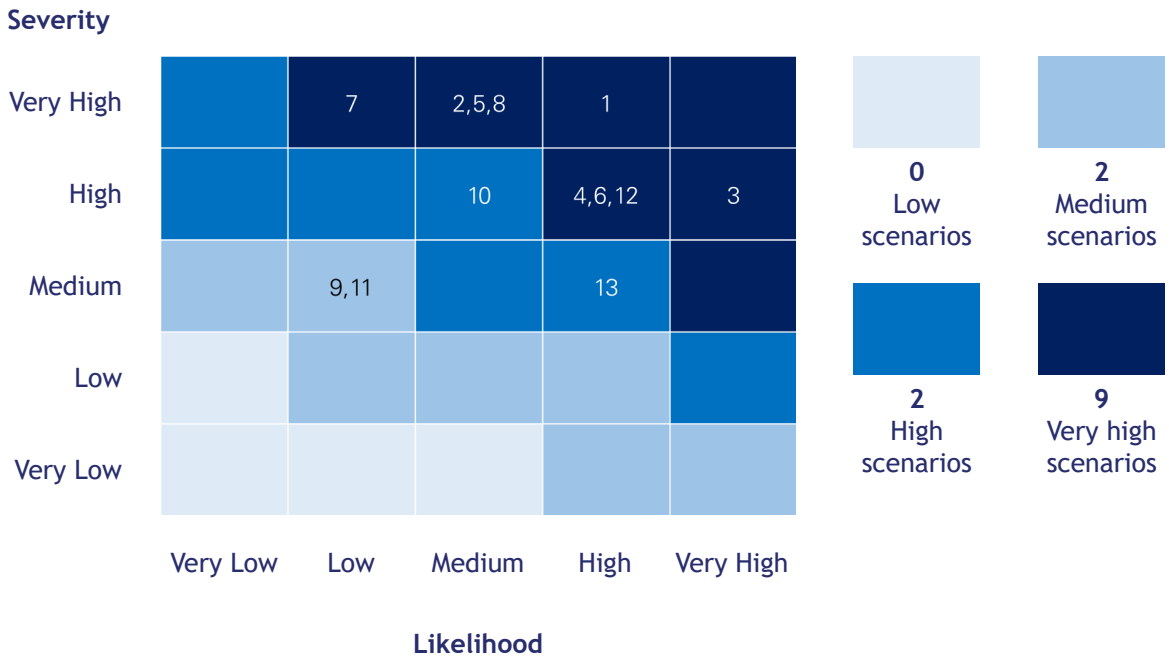
- interest rate and currency exposures;
- late surprises/high frequency of accounting adjustments;
- unusually rapid growth;
- inappropriate focus on the importance of maintaining trends and achieving forecasts;
- unusual results or trends;
- results appearing unrealistically high given the industry and economic conditions;
- key ratios deteriorating or differing greatly compared to its peers;
- regular deferral of capital expenditure
- inadequate explanations for budget variances;

Governance

- lack of oversight and inadequate attention on risk management matters by the board;
- autocratic management;
- untimely reporting and responses to audit committee inquiries;
- overly complex company structures or transactions;
- ongoing or prior investigations by regulators or others;
- bad news not escalated to the top;
- excessive or inappropriate performance-based compensation;
- lack of succession planning;
- cyber-attacks and cybersecurity (see cyber risk indicator heat map on the next page)

The following page showcases an illustrative "dashboard" reporting example of a risk indicator via a risk heat map[1]. The subject of cyber risk is not exhaustive but is intended to stimulate thoughts in relation to reporting an identified risk using a dashboard style.

[1] *Enhanced cyberrisk reporting: Opening doors to risk-based cybersecurity.* 2020. McKinsey.



Example of plotted cyber-incidents

1. Unauthorised transactions internal
2. Unauthorised transactions external
3. Data leakage
4. Information gathering by nation-state
5. Loss of data integrity
6. 3rd-party breach
7. Business-process disruption
8. Insufficient technical-disaster recovery
9. Disruption of services/denial of service attack
10. Physical intrusion
11. Failure of building environment
12. Regulatory risk
13. System settings

Appendix VII: Evaluation of Internal Audit Function

This sample exhibit, which is not exhaustive, illustrates key questions which may be used to assist the process of evaluating the internal audit function. The internal audit function may be performed in-house or outsourced, as the company deems fit.

This sample Evaluation Questionnaire may be customised, depending on the circumstances of the company.

The Evaluation Questionnaire provides ratings of 'yes' and 'no', with the indicators illustrated below, to be responded in relation to the nature of the questions:

Yes ☐	No ☐

Where a particular criterion is deemed not applicable, it shall be indicated as 'Not Applicable' in the comment box.

Name of Audit Committee member:

_____

1. Is the head of internal audit a member of:

   IIAM[1] ☐

   MIA[2] ☐

   Any other professional body

   _____

[1] Institute of Internal Auditors Malaysia
[2] Malaysian Institute of Accountants

2. Does the audit committee decide on the scope and functions of the internal audit as required in the Listing Requirements? If not, please comment on who makes that decision and why.

Yes ☐			No ☐
Comment:			

3. Does the internal audit function understand the company's business and the peculiarities of the industry(ies) in which the company operates?

Yes ☐			No ☐
Comment:			

4. Do internal auditors meet with the audit committee without the presence of non-audit committee members whenever deemed necessary in relation to the operations of the company?

Yes ☐			No ☐
Comment:			

5. Does internal audit function perform regular reviews to test the effectiveness of the financial, operational and compliance controls and processes of the company?

Yes ☐			No ☐
Comment:			

6. Does the internal audit function test the effectiveness of risk management framework and policies, covering financial and non-financial risks (including environmental, social and governance considerations)?

Yes ☐			No ☐
Comment:			

7. Does the internal audit function have sufficient resources and competency to carry out its work including to perform reviews on strategic transactions (if needed) and specific compliance issues (e.g. assessment programmes by authorities such as the customs department)?

Yes ☐			No ☐
Comment:			

8. Do the internal auditors undertake their functions according to the standards set by recognised professional bodies?

Yes ☐			No ☐
Comment:			

9. Does the internal audit function provide input into developing action plans to monitor risks and internal controls based on the internal audit plan and processes undertaken?

Yes ☐			No ☐
Comment:			

10. Is the scope of internal audit limited to certain areas only? If so, please state the reason for the limitation.

Yes ☐			No ☐
Comment:			

11. Does the internal audit function include detection and investigation of fraud? If it does not, please comment its role in relation to investigation of fraud?

Yes ☐			No ☐
Comment:			

12. Has the listed issuer carried out a Quality Assessment Review (QAR) of the internal audit function?

Yes ☐			No ☐
Comment:			

13. Do the listed issuer's external auditors rely on the internal audit assessment? If not, why?

Yes ☐			No ☐
Comment:			

14. Does the internal audit function work in collaboration with external auditors, particularly in the area of evaluation of internal controls?

Yes ☐			No ☐
Comment:			

Evaluation carried out by:

Name:
Designation:

Checked and compiled by:

Name:
Designation:

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