

## AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

### COMPOSITION

As at the date of this Annual Report, the composition of the Audit and Risk Management Committee is as follows:

- **Members**

Dr Folk Jee Yoong  
*(Chairman, Independent Non-Executive Director)*

Y. Bhg. Datuk Emam Mohd Haniff bin Emam Mohd Hussain  
*(Independent Non-Executive Director)*

Y. Bhg. Datuk Mohd Yusof bin Abd Rahaman  
*(Independent Non-Executive Director)*

Y. Bhg. Dato' Afifuddin bin Abdul Kadir  
*(Independent Non-Executive Director)*

Mr M. Chareon Sae Tang @ Tan Whye Aun  
*(Non-Independent Non-Executive Director)*

The composition of the Audit and Risk Management Committee complies with Chapter 15 of the Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirements ("Listing Requirements").

- **Secretaries**

The Secretaries of Lion Corporation Berhad, Ms Chan Poh Lan and Puan Yasmin Weili Tan binti Abdullah, are also Secretaries of the Audit and Risk Management Committee.

- **Membership**

The Audit and Risk Management Committee shall be appointed by the Board from amongst their number and shall consist of not less than three (3) members, all of whom shall be non-executive Directors with a majority of them being independent Directors. The composition of the Audit and Risk Management Committee shall fulfil the requirements as prescribed in the Listing Requirements. The members of the Audit and Risk Management Committee shall elect a chairman amongst themselves who is an independent Director.

- **Meetings and Minutes**

The Audit and Risk Management Committee shall meet at least four (4) times annually and the Chief Internal Auditor and the Chief Financial Officer shall normally be invited to attend the meetings. A majority of independent Directors present shall form a quorum. The Audit and Risk Management Committee shall meet with the external auditors without the executive Board members being present at least twice a year.

Minutes of each meeting shall be kept and distributed to each member of the Audit and Risk Management Committee and the Board. The Chairman of the Audit and Risk Management Committee shall report on each meeting to the Board.

### TERMS OF REFERENCE

The Terms of Reference of the Audit and Risk Management Committee which are in line with the provisions of the Listing Requirements and other best practices are available for reference on the Company's website at [www.lion.com.my/lioncor](http://www.lion.com.my/lioncor).

## ACTIVITIES DURING THE FINANCIAL YEAR

During the financial year under review, five (5) Audit and Risk Management Committee Meetings were held. All the members attended all five (5) meetings held in the financial year.

The Audit and Risk Management Committee carried out its duties in accordance with its Terms of Reference during the year.

The main activities undertaken by the Audit and Risk Management Committee during the year are as follows:

- **Financial Results**

Reviewed the quarterly interim unaudited financial statements and the annual audited financial statements of the Group prior to submission to the Board for its consideration and approval focusing particularly on changes in or implementation of major accounting policies, significant and unusual events and compliance with applicable accounting standards approved by the Malaysian Accounting Standards Board (“MASB”) and other legal requirements, and the main factors contributing to the financial performance of the Group in terms of revenue and earnings.

- **Internal Audit**

- (a) Reviewed the annual audit plan to ensure adequate scope and coverage on the activities of the Group, taking into consideration the assessment of key risk areas.
- (b) Reviewed the audit programmes, resource requirements and skill levels of the internal auditors for the year and assessed the performance of the internal audit function.
- (c) Reviewed the internal audit reports, audit recommendations made and Management’s response to these recommendations and actions taken to improve the system of internal control and procedures recommendations. Where appropriate, the Audit and Risk Management Committee has directed Management to rectify and improve control procedures and workflow processes based on the internal auditors’ recommendations and suggestions for improvement.
- (d) Monitored the implementation of the audit recommendations to ensure that all key risks and controls have been addressed.
- (e) Reviewed the annual Risk Management and Internal Control – Self-Assessment ratings submitted by the respective operations management. The internal auditors would validate the ratings during their audit review and adjustments to the ratings, if any, would be made accordingly and reported to the Audit and Risk Management Committee.
- (f) Reviewed recurrent related party transactions of a revenue or trading nature reports on a quarterly basis for compliance with the review procedures outlined in the Shareholders’ Mandate.
- (g) Reviewed the Statement on Risk Management and Internal Control which provides an overview of the state of internal controls within the Group prior to the Board’s approval for inclusion in the Annual Report. The Statement on Risk Management and Internal Control which had been reviewed by the external auditors is set out on pages 19 to 21 of this Annual Report.
- (h) Approved the Audit and Risk Management Committee Report and recommended the same for Board’s approval for inclusion in the Annual Report.

- **External Audit**

- (a) Reviewed with external auditors the audit planning memorandum covering the audit objectives and approach, audit plan, key audit areas and relevant technical pronouncements and accounting standards issued by MASB.
- (b) Reviewed with external auditors the results of the audit and the audit report in particular, accounting issues and significant audit adjustments arising from the external audit.
- (c) Reviewed with external auditors the memorandum of comments and recommendations arising from their study and evaluation of the system of internal and accounting controls together with Management's response to the findings of the external auditors.
- (d) Evaluated the performance and assessed the suitability and independence of the external auditors during the year vide a set of questionnaires covering the calibre of the external audit firm; quality of processes and performance; skills and expertise including industrial knowledge; independence and objectivity; audit scope and planning; audit fees; and their communications with the Audit and Risk Management Committee.

The Audit and Risk Management Committee had received from the external auditors written confirmation that they are not aware of any relationships or matters that, in their professional judgement, may reasonably be thought to bear on their independence and that they are, and have been, independent throughout the conduct of the audit engagement in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants.

- (e) Recommended to the Board on the appointment of the external auditors and their remuneration.
- (f) Notation of the non-audit fees paid to the external auditors.
- (g) Convened two (2) meetings with the external auditors without executive Board members and Management being present to discuss issues arising from their review.

- **Corporate Governance**

- **Compliance**

- (a) Monitored on a half-yearly basis the implementation progress and shortfall, if any, of the Compliance Program/Work Plan for the financial year ended 30 June 2015 ("2015 Compliance Program/Work Plan"). The 2015 Compliance Program/Work Plan identified for implementation, the necessary policies, procedures, processes, awareness and competencies training to be used as management tools and support to give the reasonable assurance of due compliance, compliance risk management, updating and reviewing of existing and new compliance across the laws, regulatory requirements, standards/code of ethics and internal policies and procedures of all the key operating companies and functions.

The Audit and Risk Management Committee noted the establishment of the following policies which formed part of the Compliance Program/Work Plan, during the year:

- Integrity and Fraud Risk Policy

The objective of the Integrity and Fraud Risk Policy is to formalise the culture of integrity and professionalism in the Group. It also served as a sustainable business practice of integrity and transparency in the way things were done and to address incidences of integrity breaches and fraud risks management in an integrated manner.

- Procurement Policy

The Procurement Policy enabled progressive enhancement to the Group's procurement capabilities through improved abilities to compare prices more effectively and to establish the capability of potential vendors. The governance and structured processes provided means for check and balance and prevent the risk of or opportunity for fraud, bribery and/or kickbacks.

- (b) Ensured that all material non-compliances/breaches of regulatory and/or statutory requirements were reported vide a half-yearly Compliance Risk Self-Assessment declaration by the Chief Executive Officer, Chief Financial Officer, Heads of Business/Operations, Chief Accountant and Company Secretary.
- (c) Notation and review of the Analysis of Corporate Governance Disclosures in Annual Reports, Annual Reports 2012-2013 by Bursa Securities. The Audit and Risk Management Committee directed that measures be put in place to close the gaps and enhance both the practise of corporate governance and the quality of governance disclosures.

- **Risk Management**

Reviewed the performance status as presented by the Risk Management Team ("RMT") of Key Operating Companies ("KOCs") together with the Risk Management Committee via half-yearly Corporate Performance Scorecard updates. The Audit and Risk Management Committee also reviewed the KOCs' Corporate Risk Scorecard in addressing any significant risk that may impact the achievement of the KOCs' performance objectives and the mitigation actions as identified by the RMTs.

- **Related Party Transactions**

- (a) Reviewed related party transactions entered into by the Group, and recommended the same for approval of the Board.
- (b) Reviewed recurrent related party transactions of a revenue or trading nature on a quarterly basis for compliance under the Shareholders' Mandate.

- **Other Activities**

**Tax**

Reviewed the readiness of the Group for the implementation of the Goods and Services Tax which took effect on 1 April 2015.

## **INTERNAL AUDIT FUNCTION**

The Internal Audit Function is undertaken by the Group Management Audit Department ("GMA Department"). Its principal activity is to perform regular and systematic reviews of the system of internal control so as to provide reasonable assurance that such system continues to operate satisfactorily and effectively.

The purpose, authority and responsibility of the Internal Audit Function as well as the nature of the assurance activities provided by the function are articulated in the Internal Audit Charter approved by the Audit and Risk Management Committee.

In discharging its function, the GMA Department adopts the *International Standards for the Professional Practice of Internal Auditing* as well as established auditing guidelines to enhance its competency and proficiency.

A risk-based audit plan is tabled to the Audit and Risk Management Committee for approval on an annual basis. The audit plan covers key operational and financial activities that are significant to the overall performance of the Group and is developed to ensure adequate coverage on a regular basis. Key risk areas are continuously identified and prioritised to ascertain the scope of the audit activities through the adoption by the operation management of the Risk Management and Internal Control – Self-Assessment Questionnaire and the Corporate Performance and Risk Scorecards.

During the financial year, the internal auditors had conducted independent reviews and evaluated risk exposures relating to the Group's governance, operations and information system as follows:

- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations
- Safeguarding of assets
- Compliance with set policies and procedures
- Identification of opportunities to improve the operations and processes
- Investigations and special audit reviews

The internal auditors also established follow-up review to monitor and to ensure that internal audit recommendations are effectively implemented.

The internal audit activities have been carried out according to the internal audit plan approved by the Audit and Risk Management Committee for the financial year.

The total cost incurred in managing the internal audit function of the Group for the financial year was RM350,490.