

AUDIT COMMITTEE REPORT

COMPOSITION

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

- **Members**

Cik Zainab binti Dato' Hj. Mohamed
(Chairman, Independent Non-Executive Director)

Y. Bhg. Tan Sri Abdul Rahman bin Mamat
(Independent Non-Executive Director)

Mr Yeow Teck Chai
(Independent Non-Executive Director)

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

- **Secretaries**

The Secretaries of Parkson Holdings Berhad, Ms Chan Poh Lan and Ms Lim Kwee Peng, are also Secretaries of the Audit Committee.

- **Membership**

The Audit 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 Committee shall fulfil the requirements as prescribed in the Listing Requirements. The members of the Audit Committee shall elect a chairman among themselves who is an independent Director.

- **Meetings and Minutes**

The Audit Committee shall meet at least four (4) times annually and the Chief Internal Auditor and the Chief Accountant shall attend the meetings. Relevant members of Senior Management shall be invited to attend these meetings to assist to clarify matters raised at the meetings. A majority of independent Directors present shall form a quorum. The Audit Committee shall meet with the External Auditors without the executive Board members and Management being present at least twice a year.

Minutes of each Audit Committee Meeting were recorded and tabled for confirmation and adoption at the next Audit Committee Meeting and subsequently presented to the Board for notation. The Chairman of the Audit Committee shall report on each meeting to the Board.

TERMS OF REFERENCE

The Board had on 25 August 2017 reviewed the Terms of Reference of the Audit Committee in line with the provisions of the Listing Requirements, and the Malaysian Code on Corporate Governance 2017 and had included the following duties of the Audit Committee to the Terms of Reference:

- (a) To require a former key audit partner to observe a cooling-off period of at least two (2) years before being appointed a member of the Audit Committee.
- (b) To establish the following with the Internal Audit Function:
 - approve the appointment and removal of the Head of the Internal Audit Function
 - approve the budget for the Internal Audit Function
- (c) To perform a peer, self and Audit Committee assessment annually to assess its effectiveness in carrying out the duties.

The revised Terms of Reference of the Audit Committee are available for reference on the Company's website at www.lion.com.my/parkson.

ACTIVITIES FOR THE FINANCIAL YEAR

During the financial year under review, five (5) Audit Committee Meetings were held. Except for Mr Yeow Teck Chai who was absent for one (1) Meeting, full attendance were recorded for all other members. The Chief Internal Auditor and the Chief Accountant were also present at all the meetings.

The Audit Committee carried out its duties for the year in accordance with its Terms of Reference.

The main works undertaken by the Audit Committee for the financial 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 significant accounting policies and compliance with applicable accounting standards approved by the Malaysian Accounting Standards Board (“MASB”), significant matters highlighted including financial reporting matters, unusual events, transactions, judgements made by Management and other legal requirements, and the main factors contributing to the financial performance of the Group in terms of revenue and earnings.

Discussed with Management and External Auditors, and had obtained reasonable assurances that all changes in significant accounting policies had been implemented; applicable accounting standards approved by MASB, provisions of the Companies Act 2016 and requirements under the Listing Requirements had been complied with; significant matters highlighted by the External Auditors including financial reporting matters, unusual events or transactions had been appropriately addressed; judgements made by Management had been assessed; and impact of any changes to the accounting policies and new accounting standards had been assessed and adopted, where relevant.

- **Internal Audit**

- (a) Reviewed and approved 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 and ensured that key and high risk areas were audited annually.
- (b) Reviewed the effectiveness of audit programmes, and the adequacy and suitability of the 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 Committee had directed Management to rectify and improve control procedures and workflow processes based on the Internal Auditors’ recommendations and suggestions for improvement.

Additional audit approach had been included in areas with weaknesses in control as revealed by the Internal Auditors during their previous annual audit reviews as well as non-compliance declared by the operating units under the Compliance Risk Self-Assessment (“CRSA”).

- (d) Monitored the implementation of the audit recommendations to ensure that all key risks and controls had been addressed.
- (e) Reviewed the risk and control profile changes of the annual Risk Management and Internal Control – Self-Assessment (“RMIC-SAQ”) 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, had been made accordingly and reported to the Audit 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 and ensured that the transactions were undertaken on an arm's length basis and on normal commercial terms which were consistent with the Group's usual business practices and policies, and on terms not more favourable to the related parties than those generally available to the public and were not to the detriment of the minority shareholders.
- (g) Reviewed the results of *ad hoc* investigative reports/special reviews on internal misconduct and suspicion of fraud with the Group tabled during the year and ensured appropriate remedial actions/measures were taken.

Additional internal control components for better control over areas of weaknesses discovered during the investigative audit had been included in the RMIC-SAQ to ensure that the operating companies level of internal control was adequately assessed and disclosed.

- (h) Reviewed the Statement on Risk Management and Internal Control which provided 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 21 to 26 of this Annual Report.

The Committee was satisfied that the system of risk management and internal control in place throughout the Group as described in the Statement on Risk Management and Internal Control, was sound and effective, providing reasonable assurance that the structure and operation of controls were appropriate for the Group's operations. The Committee also acknowledged that implementation measures were continuously taken to strengthen the system of risk management and internal control so as to safeguard the interests of stakeholders including shareholders' investments, and the Group's assets.

- (i) Reviewed the Group Compliance Framework for the financial year under review with regard to the scope of activities and their progress as set out in the Compliance Program/Work Plan set out for the financial year.
- (j) Approved a budget of RM589,500 for the Internal Audit Function to effectively carry out its audit plan for the financial year ending 30 June 2018.
- (k) Approved the Audit Committee Report and recommended the same for Board's approval for inclusion in the Annual Report.

- **External Audit**

- (a) Reviewed and discussed 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, and regulating requirements applicable to the Group; and the processes and controls in place to ensure effective and efficient financial reporting and disclosures under the financial reporting standards.
- (b) Reviewed and discussed with External Auditors the results of the audit and the audit report in particular, significant accounting issues arising from the external audit and their opinion on the financial statements of the Group and of the Company.
- (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 and ensured where appropriate, that necessary corrective actions had been taken by Management.
- (d) Evaluated the performance and assessed the suitability and independence of the External Auditors during the year in accordance with the policies and procedures in place, 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 Committee.

The Audit Committee had received from the External Auditors written confirmation on their independence and disclosed that they were not aware of any relationships or matters that, in their professional judgement, might reasonably be thought to bear on their independence and that they were independent in accordance with the By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants.

- (e) Recommended to the Board the re-appointment of the External Auditors and their remuneration.
- (f) Reviewed and discussed the non-audit fees in respect of services rendered by the External Auditors. The non-audit fees for the financial year ended 30 June 2017 amounted to RM50,000.
- (g) Convened two (2) meetings with the External Auditors without executive Board members and Management being present to discuss matters in relation to their review.

- **Compliance Management**

- (a) Compliance with laws, regulations, codes and standards
 - Reviewed and discussed the enhancements made to the Code of Business Practice (“CoBEC”) during the financial year to ensure that the CoBEC provides better clarity to certain principles governing the conduct of Directors, employees and key business partners and to address relevant developments in laws and regulations such as Personal Data Protection Act 2010 and Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001.
- (b) Application of corporate governance and good practices
 - Reviewed and discussed the analysis received by the Company from Bursa Securities on Bursa Securities’ 2016 review and assessment of the Group’s Corporate Governance disclosures in Annual Report.
- (c) Conformance to Group policies and procedures
 - Received and reviewed the status and outcomes of the half-yearly CRSA exercises which seek to identify gaps in compliance with regard to applicable laws, regulations, codes, standard and Group policies and procedures and discussed the adequacy of measures to address such gaps or non-compliance. The CRSA questionnaire sets and declaration were completed by the identified Heads of Business, Finance Managers and Group Accountants, Company Secretaries, Group Treasury and Group Tax.
- (d) Activities of Group Risk and Compliance Department
 - Monitored on a half-yearly basis the scope of activities and status of implementation as driven and coordinated by the Group Risk and Compliance as set out in the Compliance Program/Work Plan for the financial year ended 30 June 2017.

- **Risk Management**

- (a) The Audit Committee together with the Risk Management Committee:
 - monitored the year-to-date progress on the achievement of targets set for business objectives of Key Operating Companies (“KOCs”) for the financial year via review of the Corporate Performance Scorecards updates on half-yearly basis. The Audit Committee sought explanation/understanding from the Risk Management Team (“RMT”) of KOCs on non-performance.
 - reviewed the key risks as reported by the RMTs in their Corporate Risk Scorecards across the wide spectrum of risk facing the businesses and operations which included strategic risk, business risk, financial risk and operational risk. The Audit Committee provided comments on the adequacy and effectiveness of controls and/or management actions identified and/or implemented by the KOCs in addressing the identified risks.
- (b) The Audit Committee provided assurance to the Board on the risk reporting and review activities that took place during the financial year.

- **Related Party Transactions**

Reviewed the annual Shareholders' Mandate in relation to recurrent related party transactions of a revenue or trading nature for shareholders' approval to undertake transactions which are recurrent, of a revenue or trading nature and which are necessary for the day-to-day operations of the Group with related parties ("RRPTs").

The Audit Committee ensured that the review procedures were sufficient to ensure that the RRPTs were not more favourable to the related parties than those generally available to the public and were not to the detriment of the minority shareholders and that the Group had in place adequate procedures and processes to monitor, track and identify RRPTs in a timely and orderly manner, and such procedures and processes were reviewed on a yearly basis or whenever the need arose.

The Management had given assurance to the Committee that mandate for recurrent related party transactions was in compliance with the Listing Requirements and the Group's policies and procedures.

INTERNAL AUDIT FUNCTION

The Internal Audit Function is undertaken by the Group Management Audit Department ("GMA Department") and is independent from Management of the Company and the function which it audits. 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 Group Chief Internal Auditor, Ms Elsie Tan Chitt Loo, is a qualified Chartered Member of the Malaysian Institute of Accountants and a professional member of the Institute of Internal Auditors Malaysia with more than 25 years of internal audit experience in the field of retail, branding, credit financing, food and beverage, steel manufacturing, property, computer and agriculture.

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 Committee. The Audit Committee is of the opinion that the Internal Audit Function is appropriate to its size and the nature and scope of its activities.

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 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 Scorecard and the Corporate Risk Scorecard.

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
- Adequacy and effectiveness of the Group's governance, risk management and internal control system using the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Internal Control – Integrated Framework

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

Significant matters were reported directly to the Audit Committee and Senior Management to ensure improvement and corrective actions taken.

The internal audit works had been carried out according to the internal audit plan approved by the Audit Committee for the financial year.

An annual assessment for evaluating the adequacy and effectiveness of the Internal Audit Function was carried out in 2017.

The Audit Committee was satisfied that the internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence and that the audit programme for the financial year under review was carried out by the Internal Auditors as planned.

The Audit Committee was also satisfied that the Internal Audit Function, backed by a workforce comprising six (6) staff of managerial level and four (4) staff of executive level who possessed the relevant qualification and experience, had adequate resources to fulfil the internal audit plan for the next financial year.

The total cost incurred in managing the Internal Audit Function of the Group for the financial year was RM546,028.