

AUDIT COMMITTEE REPORT

The Audit Committee of Parkson Holdings Berhad is pleased to present the Audit Committee Report for the 18-month financial period ended 31 December 2021.

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)

Mr Liew Jee Min @ Chong Jee Min
(Independent Non-Executive Director)

Mr Ooi Kim Lai
(Non-Independent Non-Executive Director)

The respective profiles of the members are set out under Directors' Profile in the Annual Report.

- **Secretaries**

The Secretaries of Parkson Holdings Berhad, Ms Lim Kwee Peng and Ms Choo Yoon May, 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 3 members, all of whom shall be non-executive Directors with a majority of them being independent Directors. The members of the Audit Committee shall elect a chairman among themselves who is an independent Director and who is not the chairman of the Board. The composition of the Audit Committee shall fulfill the requirements as prescribed in the Bursa Malaysia Securities Berhad Main Market Listing Requirements ("Listing Requirements").

None of the members of the Audit Committee was a former partner of the External Auditors of the Group.

MEETINGS AND MINUTES

The Audit Committee shall meet at least 4 times annually and the Chief Internal Auditor ("CIA") 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 Terms of Reference of the Audit Committee which are in line with the provisions of the Listing Requirements, the Malaysian Code on Corporate Governance and other best practices are available for reference on the Company's website at www.lion.com.my/parkson.

ACTIVITIES FOR THE FINANCIAL PERIOD

During the financial period under review, 7 Audit Committee Meetings were held at which full attendance were recorded for all the members.

The CIA and the Chief Accountant were also present at all the Meetings. The CIA resigned on his own accord during the reporting period. Pending the appointment of the new CIA, the Chief Auditor of a listed subsidiary of the Company together with a Senior Manager from the Group Management Audit Department (“GMA Department”) attended 1 Audit Committee Meeting. The new CIA appointed in October 2021, attended the 2 Audit Committee Meetings held subsequent to his appointment.

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

The main works undertaken by the Audit Committee for the financial period 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 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 including Key Audit Matters and critical accounting judgements and key sources of estimation uncertainties made by Management had been evaluated by the External Auditors; and impact of new accounting standards for the following financial year, where relevant, had been assessed.

- **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 financial period and assessed the performance of the Internal Audit Function.
- (c) Reviewed the internal audit reports, audit recommendations made and Management’s response and actions taken to improve the system of internal control and procedures. 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.

Audit approach had been added in areas with weaknesses in control as revealed by the Internal Auditors during their previous annual audit reviews, and areas for critical processes that may be affected by the various phases of Movement Control Order imposed by the Malaysian Government to curb the spread of COVID-19.

- (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 ratings submitted by the respective operations management. The Internal Auditors had validated 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 the results of investigative audit reports on internal misconduct and irregularities within the Group tabled during the financial period 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 Risk Management and Internal Control – Self-Assessment Questionnaire (“RMIC-SAQ”) to ensure that the operating companies level of internal control was adequately assessed and disclosed.
- (g) 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 22 to 29 of this Annual Report.

The Audit 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 Audit Committee also acknowledged that implementation measures were continuously being taken to strengthen the system of risk management and internal control so as to safeguard the Group’s assets as well as the shareholders’ investments, and the interests of other stakeholders.

- (h) Reviewed the Group Compliance Framework for the financial period under review with regard to the scope of activities and their progress as set out in the Compliance Program/Work Plan for the financial period.
- (i) Approved an annual budget for the Internal Audit Function to effectively carry out its audit plan.
- (j) Approved the appointment of the CIA to replace the CIA who resigned on his own accord during the financial period.
- (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 matters 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, objectivity and independence of the External Auditors during the financial period taking into consideration information presented in the External Auditors’ Annual Transparency Report, and 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 in accordance with the By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants and the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and had in place, rigorous procedures to safeguard their independence.

- (e) Having satisfied with the performance and the assessment on the External Auditors' suitability, objectivity and independence, recommended to the Board the re-appointment of the External Auditors and their remuneration.
- (f) Reviewed and approved the non-audit fees in respect of services rendered by the External Auditors.
- (g) Met with the External Auditors without executive Board members and Management thrice to discuss matters in relation to their review.

- **Compliance Management**

- (a) Conformance to Group policies and procedures

Received and reviewed the status and outcomes of the half-yearly Compliance Risk Self-Assessment ("CRSA") exercises which seek to identify gaps in compliance with regard to applicable laws, regulations, codes, guidelines and standards, market/industry best practices and Group policies and procedures, and discussed the adequacy of measures to address such gaps or non-compliance. The CRSA questionnaire sets and declarations were completed by the identified Heads of Business, Finance Officers of the Key Operating Companies ("KOCs"), Group Accountants, Company Secretaries, Group Tax, Group Treasury and Group Corporate Planning.

- (b) Reviewed the status of the activities of Group Risk Management and Compliance Department which included:
 - Monitoring on a half-yearly basis the scope of activities and status of implementation as driven and coordinated by the Group Risk Management and Compliance as set out in the Compliance Program/ Work Plan for the financial period.
 - Developed and carried out the Group Policies and Procedures on Anti-Bribery and Corruption ("ABC") compliance programme including ABC assessment template and questionnaire to determine level of readiness of the corporate liability and Directors' liability of corrupt practices of the Group.
 - Developed the questionnaires on "Managing Information Technology and Related Risks" with the objective to among others, understanding and articulating the threat, establishing the types and nature of risks faced, and assessing the Group's capacity to manage and mitigate the risks.

- **Risk Management**

- (a) The Audit Committee together with the Risk Management Committee:

- Monitored the progress on the achievement of targets set for business objectives of KOCs for the financial period via review of the Corporate Performance Scorecards updates on a 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 period.

- **Related Party Transactions**

Reviewed the renewal of Shareholders' Mandate for 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.

- **Material Transactions**

Reviewed material transaction undertaken by the Company and ensured that the transaction undertaken was in the best interest of the Group, and recommended the same for approval of the Board.

INTERNAL AUDIT FUNCTION

The Internal Audit Function is undertaken by the 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.

Mr Patrick Lee Chun Lim resigned on his own accord as CIA during the financial period. Subsequent thereto, Mr Wong Poh Tan had been appointed by the Audit Committee as the new CIA. Mr Wong is a Fellow Member of the Association of Chartered Certified Accountants, a Chartered Accountant with the Malaysian Institute of Accountants and a professional member of the Institute of Internal Auditors Malaysia with more than 21 years of internal audit and enterprise risk management experience in the field of manufacturing, nourishing products, palm oil, property development, ceramic tiles and, pulp and paper mills.

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 RMIC-SAQ, the Corporate Performance Scorecard and the Corporate Risk Scorecard.

During the financial period, 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
- Areas for critical processes that may be affected under the COVID-19 pandemic

The GMA Department continued to review the compliance aspects of the ABC Policy and its ABC programmes.

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 are taken.

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

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

The Internal Auditors are updated on the improvement and development in internal auditing standards, procedures, techniques, corporate governance and the Listing Requirements through the attendance of seminars and talks organised by the Institute of Internal Auditors Malaysia, the Malaysian Institute of Accountants, Bursa Malaysia Berhad and the Securities Commission Malaysia as well as core competency courses organised by professional training establishments. The Audit Committee was also satisfied that the Internal Audit Function, which is led by the CIA with relevant experience and backed by 5 staff of managerial and executive level who possessed the relevant qualification and experience, had adequate resources to fulfill the internal audit plan for the next financial year.

The Internal Auditors had confirmed that they are free from any relationships or conflicts of interest which could impair their objectivity and independence in their audit assignments.

The total cost incurred in managing the Internal Audit Function of the Group for the financial period was RM643,218.