

audit committee report

The Audit Committee was established to assist and support the Board in discharging its duties in maintaining a sound system of internal control.

MEMBERSHIP AND MEETINGS

The Audit Committee members shall be appointed by the Board based on candidates recommended by the Nomination and Remuneration Committee. They will be appointed from among the Board members and shall consist of not less than three members with the majority being independent non-executive directors. The Chairman of the Audit Committee shall be an independent Non-Executive Director.

The members of the Audit Committee during the financial year ended 31 December 2003 are as follows:-

Tan Sri Datuk Asmat Kamaludin Chairman
Independent Non-Executive Director

En Mohd Salleh Mahmud
Non-Independent Non-Executive Director

En Azizan Mohd Noor
Independent Non-Executive Director
(Resigned from the Board of Directors on 6 September, 2003)

En Mohd Salleh Mahmud and En Azizan Mohd Noor are the members of the Audit Committee who fulfil Section 15.10 (1) of the Malaysia Securities Exchange Berhad (MSEB) Listing Requirements which requires a qualified accountant as members of the committee. En Mohd Salleh Mahmud is currently the Deputy Accountant General, Accountant General Office, Ministry of Finance. Subsequent to the resignation of En Azizan Mohd Noor from the Board of Directors of CAHB on 6 September, 2003 the Nomination and Remuneration Committee of the Board has proposed the relevant candidates to fill the current vacancy. Any candidate endorsed by the Board will require approval from Bank Negara Malaysia.

Meetings shall be held not less than four times a year and will normally be attended by Management and the Head of Group Internal Audit. The presence of external auditors is also requested if necessary. Other Board members and management of subsidiaries will also attend meetings upon the invitation of the Audit Committee. At least once a year, the Audit Committee shall meet with the external auditors without any management representative on the Board present. The external auditors may request a meeting if they consider it necessary with the members of the Audit Committee.

The Secretary of the Audit Committee shall be the Company Secretary. Minutes of each meeting shall be distributed to each members of the Board. The Chairman of the Audit Committee shall report on each meeting to the Board. The quorum is met by attendance of any two members.

In 2003 there were 7 Audit Committee meetings. The details of attendance of the meetings are as follows:-

Tan Sri Datuk Asmat Kamaludin	7/7
En Mohd Salleh Mahmud	6/7
En Azizan Mohd Noor	5/5

The Audit Committee meetings were held on the following dates:

30 January 2003

20 April 2003

28 April 2003

16 May 2003

22 July 2003

30 October 2003

19 December 2003

AUTHORITY

The Audit Committee is authorised by the Board to investigate any activity within its terms of reference and shall have unrestricted access to both the internal and external auditors and to all employees of the Group. The Committee is also authorised by the Board to obtain external legal or other professional advice as necessary.

TERMS OF REFERENCE OF AUDIT COMMITTEE

- Ensure that the financial statements are prepared in a timely and accurate manner with frequent review of the adequacy of provisions of commitments and contingencies and bad and doubtful debts. Review the Balance Sheet and Income Statement for submission to the Board of Directors and ensure the prompt publication of financial statements.
- Review internal controls, including the scope of the internal audit programme, internal audit findings and recommend action to be taken by Management.
- To consider the appointment of external auditors and the audit fee.
- To discuss with the external auditors prior to the commencement of audit, the nature and scope of audit and to ensure co-ordination of audit where more than one audit firm is involved. To evaluate the performance of the external auditors and make recommendation to the Board of Directors on their appointment and remuneration.
- To discuss problems and reservations arising from the external audits and any matters the external auditors may wish to discuss (in the absence of management where necessary).

- To review the quarterly announcements made to the MSEC and year end financial statements before submission to the Board focusing on:
 1. Going concern assumption
 2. Compliance with accounting standards and regulatory requirements
 3. Any changes in accounting policies and practices
 4. Significant issues arising from the audit
 5. Major subjective areas
- To evaluate the performance of Group Internal Audit Division.
- To review the external auditors management letter and management's response
- To monitor related party transactions entered into by the Company and the Group.
- To review the effectiveness of internal control systems.
- To review the minutes of other audit committees within the Group and be satisfied that all matters arising are being appropriately addressed by these other audit committees.
- To consider any conflict of interest situation that may arise within the listed issuer or group including any transaction, procedure or course of conduct that raises question of management integrity.
- To consider the assistance given by the employees of the listed issuer to the external auditors.
- To perform any other functions as authorised by the Board.

SUMMARY OF ACTIVITIES

During the year under review, the Audit Committee carried its duties as set out in the terms of reference. Among the main areas discussed by the Audit Committee during the year are as follows:-

1. Reviewed Bank Negara Malaysia's examination report of CAHB and the requisite reply and action plan.
2. Reviewed the audit scopes and programmes, functions and resources requirement of the Group Internal Audit Division
3. Reviewed the annual audit plan, audit report and the scope of work with external auditors.
4. Reviewed the internal audit reports, audit recommendation and management response to these recommendations.
5. Initiated dialogue with the Audit Committee Chairman of BCB, CIMB and Commerce Life on matters of common and special interest to facilitate greater cooperation.
6. Reviewed the financial statements of the Group on a quarterly basis and the draft announcements to MSEC.
7. Reviewed the statements included in the Annual Report namely statement of Corporate Governance and Internal Control.
8. Reviewed matters pertaining to the share exchange agreement between CAHB and MOF/Khazanah.
9. Reviewed any human resources issues pertaining to the internal audit function for example, appraisal, appointment and resignation.

INTERNAL AUDIT FUNCTION

The Group Internal Audit Division (Group IAD) is the Group Internal Audit Division of Bumiputra-Commerce Bank Group. The Board will determine the remit of the internal audit function. The Group IAD assist CAHB in discharging its responsibilities. The CIMB Group has a Strategic Risk and Compliance Unit while Bank Niaga has an internal audit function. Nevertheless oversight is in place as the Group Chief Internal Auditor is invited to attend CIMB and Bank Niaga audit meetings and quarterly reports are forwarded to the CAHB Audit Committee and Group IAD.

In 2003, the Group IAD implemented various re-engineering exercises as follows:-

- Change and improvise on the audit processes including audit scope, methodology grading system and the audit programmes.
- Restructuring of the organisation and creation of new department to undertake the high level and more specialised audits in the area of management audit, risk management and credit portfolio.
- The introduction of pool auditors with the objective to groom more flexible and exposed auditors in various fields within the Commerce Group.
- The automation of audit working papers using Audit leverage was adopted to improve on speed and efficiencies of audit and improve on cost effectiveness.
- Quality assurance review conducted by external parties with the objective to identify the weaknesses and strengths of Group IAD and the required areas of improvement.
- 100% audit on branches through desktop auditing and special visits.

In 2003, 416 reports were issued compared to 335 reports in 2002. Total assignments for 2003 amounted to 681 compared to 523 in 2002. From various audit findings gathered, specific recommendations have been made to the management. The Group IAD will continue in 2004 to enhance the value added services it provides mindful of its independent assurance role within the Group.