

# Audit Committee Report

## MEMBERSHIP AND MEETINGS

The Audit Committee members shall be appointed by the Board of Directors 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, 2004 are as follows:-

Tan Sri Datuk Asmat Kamaludin (Chairman)  
Independent Non-Executive Director

En Mohd Salleh Mahmud  
Non-Independent Non-Executive Director

En Izlan Izzah  
Independent Non-Executive Director  
(Appointed to the Board of Directors on 26 July 2004)

En Mohd Salleh Mahmud is the member of the Audit Committee which meets the requirements of Section 15.10 (1) of the Bursa Securities Listing Requirements which requires at least one qualified accountant as member of the committee. En Mohd Salleh Mahmud is currently the Deputy Accountant General, Accountant General Office, Ministry of Finance.

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. Due notice is given of issues to be discussed and conclusions are minuted. 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. The Audit Committee met with the external auditors without any management representative presence on 31 January 2005. This is an annual event.

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 is the Company Secretary. Minutes of each meeting shall be distributed to each member 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 2004 there were 4 Audit Committee meetings. The details of attendance of the meetings are as follows:-

Tan Sri Datuk Asmat Kamaludin	4/4
En Mohd Salleh Mahmud	4/4
En Izlan Izzah	2/2

The Audit Committee meetings were held on the following dates:-

24 February 2004  
26 April 2004  
30 July 2004  
27 October 2004

## 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 coordination 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 Bursa Malaysia Securities Berhad 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 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.
- To review and discuss significant and unusual events.

### 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 were as follows:-

- Reviewed the audit scopes, programmes, functions and resources requirement of the Group Internal Audit Division and that it has the necessary authority to carry out its work.
- Reviewed the annual audit plan, audit report and the scope of work with external auditors.
- Reviewed the internal audit reports, audit recommendation and management response to these recommendations.
- Reviewed the financial statements of the Group on a quarterly basis and the draft announcement to Bursa Securities before recommending them for the approval of the Board of Directors.
- Reviewed the statements included in the Annual Report namely Statement of Corporate Governance and Statement on Internal Control.
- Initiated a high level review of the Group Internal Audit Function by an external party.
- Monitored and reviewed the action plan timelines for points raised during Audit.
- Reviewed the annual audited financial statements of the Company and the Group with external auditors prior to submission to the Board of Directors for their approval. The review would entail due compliance with provision of the Companies Act, 1965 and the Banking and Financial Institution Act, 1989, Listing Requirement of Bursa Securities, applicable approved accounting standards in Malaysia as well as other legal and regulatory requirements.
- In accordance with the new ESOS Guidelines issued by Bursa Securities in February 2004, the Audit Committee verified that the allocation of ESOS Options during the year were in accordance with the relevant criteria set.

### INTERNAL AUDIT FUNCTION

The Group Internal Audit Division (Group IAD) is the Group Internal Audit Division of Bumiputra-Commerce Bank Berhad Group. The Board will determine the remit of the internal audit function. The Group IAD assists CAHB Board in discharging its responsibilities. For CIMB Group and Bank Niaga, the internal audit function is entrusted to their own departments called Corporate Assurance Department and Group Internal Auditor respectively. The internal audit division of Commerce Assurance Berhad (formerly known as AMI Insurans Berhad) was placed under Group IAD on 17 January, 2005. Oversight is in place as the Group Chief Internal Auditor is invited to attend CIMB and Bank Niaga Audit Committee meetings and quarterly reports are forwarded to the CAHB Audit Committee and Group IAD. The internal audit function is independent of activities they audit and duties are performed with impartiality, proficiency and professional care.

In 2004, the Group IAD implemented various process engineering exercises as follows:-

- Reorganised the set up of the division including setting up of Credit Department to focus on credit risk and the introduction of Central Auditors concept.
- The introduction and implementation of certification to Common Audit Findings (CAF).
- The development and implementation of Self-Audit Questionnaires (SAQ).
- Recommended on the introduction of Rules of Business Conduct that were implemented.
- The development and implementation of new grading system with emphasis on risk and its impact to the financial position and business of the audited business units.
- The introduction of virtual/desktop auditing as part of the audit process.
- Conceptualised the new audit approach of reviewing the whole business in the region in terms of business prospects and opportunities.

In 2004, 549 reports were issued compared to 414 reports in 2003. The Division achieved an improvement of 32.6% in reports issued as compared to 2003 with an increase in personnel of 14.7%. Other activities in 2004 conducted by Group IAD include:-

- Various training and development programmes.
- Co-sourcing with external consultants in auditing of Treasury, Risk Management and IT.
- Special review on specific areas of operations.
- Introduce the BCB Young Leaders programme together with BCB.

In 2005, Group IAD will strive to enhance its value added assurance services with emphasis as a change agent and knowledge repository for best practices.