

# Audit Committee Report

## 1. COMPOSITION AND MEETINGS

The composition of the Audit Committee during the financial year under review is as follows:

Dato' Larry Gan, Chairman	- Independent Non-Executive Director
Mr. Leong Wai Hoong, Member	- Independent Non-Executive Director
Mr. Khoo Teik Chooi, Member*	- Non-Independent/Non-Executive Director (appointed on 29 February 2008)
Mr. Augustus Ralph Marshall, Member*	- Executive Director (ceased on 29 February 2008)

\* Mr. Augustus Ralph Marshall, who is an Executive Director of Tanjong, relinquished his membership in the Audit Committee, in favour of Mr. Khoo Teik Chooi with effect from 29 February 2008. The change in the composition of the Audit Committee was to comply with the amendments to Chapter 15 of the Listing Requirements of Bursa Securities that the Audit Committee be comprised wholly of Non-Executive Directors with effect from 31 January 2009.

The Audit Committee conducted seven meetings during the financial year. The members' attendance is set out separately in the Corporate Governance Statement. The Executive Director, Senior Management, Head of Group Corporate Assurance and External Auditors were in attendance at the meetings where necessary. The Committee had also met with the External Auditors separately on two occasions without the presence of the Executive Director and Senior Management.

## 2. SUMMARY OF ACTIVITIES

### (a) Condensed Terms of Reference of the Audit Committee

The Audit Committee has discharged its duties as detailed in its Terms of Reference which accompany this Report. Under its terms of reference, the Audit Committee:-

- Monitors the integrity of the Group's financial statements and any formal announcements relating to the Group's performance, reviews significant financial reporting judgements and related party transactions;
- Reviews the adequacy and effectiveness of the Group's internal control, risk management and governance systems;
- Reviews and monitors the effectiveness of the external audit process and recommends to the Board on the appointment, re-appointment and remuneration of the External Auditors and ensures that an appropriate relationship between the Group and the External Auditors is maintained, including reviews of non-audit services, fees, External Auditor's management letter and Management's response;
- Reviews and monitors the independence, scope, effectiveness, competence and adequacy of resources of Group Corporate Assurance, including review of the internal audit plan, processes, action taken on the recommendations made and Management's responses to major audit findings.

### (b) Major activities undertaken by the Audit Committee for the year under review

#### Group Financial Statements and Announcements

- Reviewed Quarterly Reports, annual audited financial statements, the Annual Report and supporting information to ensure adherence to the reporting requirements in the UK and in Malaysia as well as the accuracy, completeness and clarity of the disclosures therein.
- Reviewed and evaluated the Report to the Audit Committee by the External Auditors, PricewaterhouseCoopers LLP ("PwC").

#### Risk Management Activities

- Reviewed and discussed the Principal Business Risks Schedule and Risk Map presented by the Group Chief Financial Officer outlining enterprise wide risks, risk treatment measures and the resulting likelihood and impact of those risks crystallising.

#### Related Party Transactions

- Determined the propriety of proposed related party transactions to ensure that they were carried out on fair and reasonable terms that were not more favourable to the related party than those generally available to third parties and were not to the detriment of minority shareholders.

#### External Auditors

- Discussed and reviewed with PwC, the external audit plan covering the nature, extent and timing of audit work to be performed, significant matters arising from the audit, developments in laws, regulations and International Financial Reporting Standards, as well as fees proposed for the audit.
- Reviewed the engagement of PwC in the provision of non-audit services, ensuring that these are in accordance with the Policies and Procedures on Independence of External Auditors (the "Policy"). The Policy aims to ensure that the External Auditors' objectivity and independence are not impaired through the provision of such services by External Auditors and describes the circumstances in which External Auditors may be permitted to undertake non-audit work for the Group.
- Monitored and reviewed the independence and objectivity of PwC, taking into account relevant UK regulatory requirements and prevailing professional and ethical guidance.

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### Internal Controls and Group Corporate Assurance

- Evaluated the reports of Group Corporate Assurance regarding significant risk areas and internal control matters and discussed their findings with Senior Management of the Group to ensure that appropriate and timely measures had been taken to address those issues.
- Reviewed the annual assurance plan to assess whether audit priorities were established according to the relative risks and the need for effective corporate governance of the Group.
- Ensured that Group Corporate Assurance had adequate resources and appropriate authority to effectively discharge its professional responsibilities.

### 3. GROUP CORPORATE ASSURANCE

The internal audit function is carried out internally by the Group Corporate Assurance Department (“GCA”). GCA assists the Audit Committee of the Board and Management of the Group in the effective discharge of their responsibilities in respect of risk management, internal controls and governance. This is accomplished by GCA’s provision of assurance and advisory services designed to add value and facilitate the achievement of the Group’s objectives. The Head of GCA reports directly to the Chairman of the Audit Committee in accordance with the GCA Charter approved by the Audit Committee. GCA adopts a risk-based approach to audits, both at process and entity-wide levels and its reports are communicated to both Management and the Audit Committee in a timely manner. All critical activities and operations are reviewed and the implementation status of audit recommendations is monitored and reported to the Audit Committee to ensure that key risk and control concerns are being addressed effectively. GCA also works collaboratively with the Group Risk Management Department to assess the effectiveness of risk mitigation measures undertaken by the Group.

During the financial year, the major areas of work performed by GCA and reported to the Audit Committee and ultimately to the Board were as follows:

- (a) Implemented the annual review plan for the financial year encompassing financial, operational and IT audits of the Group’s key business units. The inaugural reviews of the power plants acquired by the Group in the Globeleq acquisition were undertaken during the year.
- (b) Conducted follow-up on previous audit recommendations to ensure that appropriate corrective actions were instituted or were in the process of being instituted and updated the Audit Committee on the implementation status of all outstanding recommendations.
- (c) Assisted the Group Risk Management Department in the evaluation and reporting of the Group’s principal business risks and risk methodology employed and facilitated the process of ensuring that risk mechanisms are pro-actively embedded within the existing risk framework of the Group.
- (d) Undertaken continuous assurance activities such as the verification of draw reports, observation of draw procedures, attestation of duties and taxes as well as verification of inventory.
- (e) Developed the annual review plan for the next financial year and resource requirements of the department based on priority ratings assigned to the key business units and processes of the Group.

The operating expenditure incurred by the department in fulfilling its obligations for the year amounted to a total of RM1.4 million.

### TERMS OF REFERENCE OF THE AUDIT COMMITTEE

#### 1. MEMBERSHIP

- 1.1 The Audit Committee shall be appointed by the Board from amongst their number and shall be composed of not fewer than three (3) members.
- 1.2 All members of the Audit Committee should be Non-Executive Directors, with a majority of the members being Independent Directors.  
In determining independence, the Board will observe the requirements of the Listing Requirements of Bursa Securities.
- 1.3 All members of the Audit Committee should be financially literate and at least one member of the Audit Committee:
  - (a) must be a member of the Malaysian Institute of Accountants; or
  - (b) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years’ working experience and:
    - (i) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967 of Malaysia; or
    - (ii) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or
  - (c) must have a degree in accounting or finance and at least 3 years’ post qualifying experience in accounting or finance; or
  - (d) must have at least 7 years’ experience as a chief financial officer of a corporation or be primarily responsible for the management of the financial affairs of a corporation.

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In determining the required qualification, the Board will accept any other relevant requirements of the Listing Requirements of Bursa Securities.

- 1.4 The Board must ensure that no alternate Director is appointed as a member of the Audit Committee.
- 1.5 The members of the Audit Committee shall elect a Chairman from amongst their number who shall be an Independent Director.
- 1.6 If a member of the Audit Committee resigns, dies or for any reason ceases to be a member resulting in non-compliance with subparagraphs 1.1, 1.2 and 1.3 above, with the result that the number of members is reduced to below three (3), the Board shall, within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.
- 1.7 The appointment of an Audit Committee member terminates when the member ceases to be a Director.
- 1.8 The term of office and performance of each of Audit Committee member must be reviewed at least once every 3 years to determine whether these members have carried out their duties in accordance with the Audit Committee's terms of reference.

### 2. AUTHORITY AND RIGHTS

2.1 The Audit Committee wherever necessary and reasonable for the performance of its duties, shall in accordance with the procedure determined by the Board and at the cost of the Company:

- (a) have authority to investigate any matter within its Terms of Reference;
- (b) have the resources which are required to perform its duties;
- (c) have full and unrestricted access to any information pertaining to the Group;
- (d) have direct communication channels with the External Auditors and members of the Group Corporate Assurance function which persons carry out the internal audit function for the Group;
- (e) be able to obtain independent professional or other advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary; and
- (f) be able to convene meetings with the External Auditors; members of the Group Corporate Assurance Department or both excluding the attendance of the executive members of the Group, whenever deemed necessary.

### 3. FUNCTIONS AND DUTIES

The Audit Committee shall, amongst others, discharge the following functions:

#### 3.1 Financial Reporting

- (a) Review the quarterly results and annual financial statements prior to the approval by the Board, focusing particularly on:
  - (i) changes in or implementation of major accounting policy changes; inclusive of the propriety of accounting policies, principles and practices adopted by the management and accepted by the External Auditors, where alternatives are also acceptable;
  - (ii) significant and unusual events and significant adjustments arising from the external audit;
  - (iii) the accuracy and adequacy of the disclosure of information essential to a fair and full presentation of the financial affairs of the Group;
  - (iv) compliance with accounting standards, other statutory and legal requirements and the going concern assumption.
- (b) Discuss problems and reservations arising from the interim and final audits and any matter the External Auditors may wish to discuss (in the absence of the Management, where necessary).

#### 3.2 Internal Control and Risk Management

- (a) Assume responsibility for the regular review and/or appraisal of the effectiveness of the Group's system of internal control, risk management systems and governance process.

#### 3.3 Related Party Transactions

- (a) Review any related party and inter company transactions and conflict of interest situations that may arise within the Company/Group and any related parties outside the Group including any transaction, procedure or course of conduct that raises questions of management integrity.

#### 3.4 External Audit

- (a) Discuss with the External Auditors before the audit commences, the nature, scope and timing of the audit plan and ascertain that it will meet the needs of the Board, the shareholders and regulatory authorities; the audit plan, audit report and their evaluation of the Group's internal controls, reporting of significant deficiencies and/or material weaknesses, reservations, difficulties encountered and the assistance given by employees of the Group.
- (b) Recommend the audit fee to the Board and pre-approve fees in respect of non-audit services that may be performed by the External Auditors, ensuring that the provision of such services does not impair the independence and objectivity of the external audit firm.
- (c) Review and monitor the independence and objectivity of the External Auditors and the effectiveness of the audit process annually, taking into consideration relevant UK professional and regulatory requirements.

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- (d) Oversee the process of the appointment and removal of the External Auditors, review any letter of resignation of the External Auditors, and make appropriate recommendations through the Board to the Shareholders to consider at the Annual General Meeting.
- (e) Review the External Auditors' management letter and Management's response.

### 3.5 Internal Audit

- (a) The Group Corporate Assurance function shall report to the Audit Committee.
- (b) Monitor and review the effectiveness of the Group Corporate Assurance function, its scope, functions, independence, level of its competency and adequacy of resources; and that it has the necessary authority to carry out its work.
- (c) Review the internal audit programme, processes and the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations made.
- (d) Approve the appointment or termination of managerial staff members of the Group Corporate Assurance audit function and take cognisance of resignations of Group Corporate Assurance staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.
- (e) Consider the major findings of internal investigations and Management's response and other topics as defined by the Board.
- (f) Ensure the Group Corporate Assurance function is independent of the activities they audit and are performed with impartiality, proficiency and due professional care.

### 3.6 Reporting Functions and Duties

- (a) Submit to the Board on a periodic basis a Report on the summary of activities of the Audit Committee in the discharge of its functions and duties in respect of each financial quarter and the financial year.
- (b) Promptly report to the Bursa Securities on any matter reported by it to the Board of the Company which has not been satisfactorily resolved resulting in a breach of the Bursa Securities Listing Requirements.
- (c) Prepare, with the assistance of Management and Group Corporate Assurance, a formal report for inclusion in the Annual Report.

### 3.7 Other Functions and Duties

- (a) Review the arrangements by which staff of the Group may in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or other business or commercial related matters.
- (b) Review the allocation of options in accordance with established allocation criteria as set out in any prevailing bye-laws governing employee or other share option schemes.
- (c) Carry out any other function that may be mutually agreed upon by the Committee and the Board which would be beneficial to the Company and ensure the effective discharge of the Committee's duties and responsibilities.
- (d) Review and reassess, with the assistance of Management, the external auditors and external legal counsel (if necessary), the adequacy of the Committee's Terms of Reference at least annually.

## 4. MEETINGS AND MINUTES

- 4.1 To form a quorum in respect of a meeting of the Audit Committee, the majority of members present must be Independent Directors.
- 4.2 A minimum of four meetings per year are to be planned, although additional meetings may be called at any time at the Audit Committee Chairman's discretion. An agenda shall be sent to all members of the Audit Committee and any other persons who may be required/invited to attend. All meetings to review the quarterly results and annual financial statements, shall be held prior to such quarterly results and annual financial statements being presented to the Board for approval.
- 4.3 Notwithstanding paragraph 4.2 above, upon the request of any member of the Audit Committee, the External Auditors or Group Corporate Assurance, the Audit Committee Chairman shall convene a meeting of the Audit Committee to consider the matters brought to its attention.
- 4.4 In addition to the Audit Committee members, the meeting will normally be attended by representatives of the External Auditors and by the Head of Group Corporate Assurance. Any Board members, or any member of Senior Management or any other relevant employee within the Group may be invited to attend upon the invitation of the Audit Committee.
- 4.5 At least twice a year, the Audit Committee shall meet with the External Auditors without the Executive Director and Senior Management being present.
- 4.6 The Chairman of the Audit Committee should engage on a continuous basis with Senior Management, the Head of Group Corporate Assurance and the External Auditors in order to be kept informed of matters affecting the Group.
- 4.7 Detailed minutes of the Audit Committee's meetings will be made available to all Board members. A summary of significant matters and resolutions will be reported to the Board by the Audit Committee.
- 4.8 The books containing the minutes of proceedings of any meeting of the Audit Committee shall be kept by the Company at the principal office of the Company, and shall be open to the inspection of any member of the Audit Committee and the Board.
- 4.9 The Audit Committee may establish any regulations or procedures from time to time to govern its meetings, keeping of minutes and its administration.
- 4.10 The Group Company Secretary shall act as the Secretary to the Audit Committee.