AUDIT COMMITTEE INSTITUTE

Audit Committee Roundtable Highlights - 2009

The Audit Committee – Grappling with Rising Challenges in the Marketplace

MALAYSIA

AUDIT ▪ TAX ▪ ADVISORY

Foreword

David Lim
Chairman
Audit Committee Institute ("ACI")
Malaysia

The financial crisis has shown that concerted government actions via monetary and fiscal stimuli can revive economic activities after the recent financial tsunami threatened to shut them down. By volume, international trade was curtailed by a third whilst unemployment surged. Remarkably, by mid-2009, most countries had seen the worst, and have possibly turned the corner; returning to growth albeit modest.

The resilience of emerging markets was a positive feature of the global financial crisis. Malaysia, in particular, had a significant number of companies engaged in the electrical and electronics sector where margins collapsed during early 2009 as revenues fell faster than costs.

With the unfolding economic recovery, albeit nascent, improvements in profit margins appear likely in 2010. The sentiment is one of cautious optimism as a recovery in capacity utilization is a forerunner before margins start to recover.

The economic outlook for Malaysia, with its relative openness and export oriented economy, should experience acceleration in 2010, based on a recently government announced optimistic projected 5% GDP growth. The risk exposure to a potential global backslide is still inherent because global recovery so far has primarily been the result of fiscal stimulus. When such stimulus initiatives run their course, where will the new traction or momentum come from? Whilst confidence has been revived and order restored, to a certain extent, to the global capital-markets system, the removal of policy support could temper performance and trigger bouts of weaknesses.

Emerging economies like Malaysia should continue to grow and outpace the rest of the world, in part due to good lessons learnt from the Asian financial crisis which we experienced a decade earlier.

One thing that has emerged from this aftermath of "Panic of 2008" is the concept of "Too Big To Fail". Increasingly, we are seeing governments unwilling to allow a major securities firm/financial institution to fail. In the past, such firms would either be liquidated or merged into a healthier entity.

The message sent to shareholders and creditors of poorly managed companies all the time was you will get penalised if:

- The companies took risks (via their Boards and Management) which they didn't really understand;
- The Boards and key executives were all in a comfort zone and perhaps took their eyes off the ball for far too long; and
- The companies took on board major risks which were well in excess of the risk capacity and appetite they could afford - in short, greed took over.

The invaluable lesson learnt from the financial crisis is that when a company takes on poor risks, especially with borrowed money, the company risks losing the investments, the jobs it provides and, in the worst case scenario, its very existence.

The market penalizes those who don't perform. However, the government's intervention has meant that this message becomes less clear. It is, therefore, imperative that companies must remember that unless they belong to the "Too Big To Fail" category, they will remain subject to the tenets of capitalism where the high performers prevail whilst laggards invariably slip into oblivion.

Under the auspices of ACI, aside from the 6 roundtables which were organised, a maiden study focusing on the profile, practices and pay of Non-Executive Directors ("NEDs") of the Top 300 Market Capitalised Bursa companies was carried out. The study was published at the end of 2009 (see page 20).

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Introduction

Audit Committees of public listed companies ("PLCs") are invariably being delegated by their Boards the risk oversight responsibility, in addition to overseeing the financial reporting and audit (both internal and external) processes as well as reviewing conflict of interest situations and related party transactions. With the recent financial crisis and the adverse effects that were brought about, it is vital for Audit Committees to be apprised of the various business risks being faced by the company and be vigilant of the effects thereof upon the financial reporting process.

In the wake of the market turmoil, the Audit Committee Institute ("ACI"), sponsored by KPMG, facilitated a series of six (6) interactive Roundtable discussions during the last 2 quarters of year 2009 in Kuala Lumpur (3), Penang, Johor Bahru and Kuching. A total of 154 participants, who largely comprised Audit Committee members of PLCs in the various regions, were invited to this 3rd series of Roundtables. As highlighted on the following pages, the Roundtable series – "Reassessing risks in the wake of market turmoil" – elicited from participants their concerns, perspectives and preparedness on risk management in the midst of an economic downturn.

Whilst the global economic downturn may have somewhat bottomed out based on statistics currently available, ongoing vigilance by those entrusted with corporate governance stewardship role should never be softened as there is no guarantee a relapse will not take place.

The Audit Committee – Grappling with Rising Challenges in the Marketplace

Financial crisis and market turmoil

The month of September 2008 will certainly be remembered as a "black" month when corporate giants fell almost like dominos in the aftermath of an unprecedented liquidity meltdown in the West, particular amongst players in the financial sector, where corporate behemoths like AIG, Lehman Brothers, Citigroup, Northern Rock, and a host of others sought government bailouts. Questions were invariably asked as to how the various "red flags" could have gone unnoticed at boardroom deliberations, particularly amongst those charged with corporate governance and risk management.

Companies of various sizes and from diverse industries are inevitably wrestling with the challenges posed by the financial crisis and recession that followed. Their boards and Audit Committees are trying to be more focused in ensuring that Management is addressing key financial risks, that risk management processes are effective, and that the company's strategy - and the board's oversight practices - will be more effective in the emerging business and governance environment.

Fearing that the financial tsunami may have its reaches beyond the shores of the United States and Europe, economies around the world have increased their vigilance "scale" and attuned their antennae towards addressing the after-effects that may be imported from the financial meltdown.

Whilst there may be positive signs that the crisis has bottomed out, there are still looming fears of a "double dip" and/or false sense of complacency on a purported economic recovery. The recent announcement of the need to create 10 million job vacancies in the United States and weakening consumer demand, coupled by the uncovering of massive deficits in Greece, amongst others, are certainly disconcerting indications that all is not well – as yet.

Aftermath of the financial crisis

"Why did some banks and financial institutions perform better than others during the recent crisis compared to others?"
(Sir David Walker)

Sir David Walker was commissioned by the Government of the United Kingdom to conduct a review of what went wrong at corporations that were "burnt" in the aftermath of the financial crisis, focusing on corporate governance and boardroom activities in banks and financial institutions.

At the core of the Walker Review is the question of "Why did some banks and financial institutions perform better than others during the recent crisis compared to others?" Walker reaches the conclusion that whilst existing corporate governance structures within the UK remain viable, he emphasizes the need to achieve a higher level of corporate and risk governance within banks and financial institutions that is reflective of the complexity, systemic importance and the inherent nature of their risk taking activities. Accordingly, some revisions to *existing corporate governance arrangements, culture and behavioural changes allied to an effective supervisory approach underpin Walker's recommendations (Source: KPMG, United Kingdom).*

It is heartening to note that the key findings from this Review became the cornerstone for significant changes to be made to the UK Code of Corporate Governance (renamed from the previous UK Combined Code on Corporate Governance).

Considering risk and strategy together, and clearly aligning risk oversight responsibilities among the full board and its standing committees are critical to ensuring effective risk oversight. (Blue Ribbon Commision)

Considering risk and strategy together, and clearly aligning risk oversight responsibilities among the full board and its standing committees are critical to ensuring effective risk oversight, according to a new Blue Ribbon Commission (BRC) report issued in late October 2009 by the National Association of Corporate Directors of the USA.

The BRC recommends ten (10) principles to help boards strengthen their oversight of the company's risk management system and activities. Oversight practices that work well for one board may not be ideal for another – especially when corporate strategy, culture and risk profile vary so significantly from company to company. (Refer to **Appendix 1** for the write-up on the ten (10) principles)

The Malaysian scenario

The question being frequently asked by corporate players is, *"Is Malaysia really affected by the financial fiascos and meltdown that have crippled developed nations in a twinkle of an eye"?* Whilst statistics and the media indicate that Asian nations were relatively spared from the financial crisis, such cannot be said of its after-effects as economies in this part of the world took a beating in the form of a significant economic downturn. And Malaysia, being an export oriented economy, was not spared from plummeting orders albeit at the time of this article, the effects from the economic downturn upon our nation and the region have somewhat abated. In February 2010, our Prime Minister announced a shrinkage of 1.7% in the nation's economy for year 2009 as opposed to an estimated 3% at the onset of the market turmoil.

The Malaysian Code on Corporate Governance (Revised 2007) promulgates as one of its best practices that the specific responsibilities of the Board of Directors of a public listed company encompass, amongst others, *"identifying principal risks and ensuring the implementation of appropriate systems to manage these risks"*. More often than not, this responsibility is delegated to the Audit Committee, who is entrusted to oversee the financial reporting process, evaluate the audit processes, including work of the internal auditor; and review conflict of interest situations and related party transactions.

Reassessing risks in the wake of market turmoil

In the wake of the market turmoil and economic downturn, Audit Committee members of public listed companies in Malaysia discussed these issues in depth during the Audit Committee Institute Malaysia's 2009 Audit Committee Roundtable Series held over 6 sessions from July 2009 to October 2009. Open dialogue among Roundtable panelists and attendees (totalling 154) - as well as real-time surveys conducted at each session - highlighted key issues and emerging practices that Audit Committees/ boards should consider in their oversight of risks and challenges posed by the economic downturn. The following are 7 salient takeaways from the Roundtables, including the key insights thereof:

- A massive 89% of respondents believed that the global economic downturn would last one year or more – this certainly signals the pervasive pessimism amongst market players;

- 86% of participants were concerned with the 3 risks involving delinquent receivables, reduced sales growth and declining margins – with the economic downturn, it is surprising to note that only an insignificant 3% of respondents were concerned with overcapacity;

- It is heartening to note that 97% of participants were at least somewhat confident that their Management understands the company's exposure to key third parties, e.g. customers, suppliers, partners, who may be in financial distress – this speaks volumes of Management being "on the ball";

- Another 97% of respondents were of the view that the current economic downturn has caused their boards to reconsider the adequacy and effectiveness of the company's governance processes for managing the business risks – this again reflects the robustness of the organization's risk management responses towards evolving business risks;

- All the participants voiced their confidence that their Management has a good understanding of the company's current risk profile;

- 99% of participants expressed their concern about their companies' ability to maintain their competitive position in the emerging business and regulatory environment – this reinforces the need for organizations to be resilient in adapting to changing environment; and

- A cumulative 64% of respondents believed that better board/committee composition (right mix of directors, relevant experience, skill sets) and better understanding of company's strategy and related risks would most improve the effectiveness of their boards – this final insight undergirds the need for board members to be well apprised of the business risks faced by their organizations in order to contribute in an effective way towards corporate governance over the entities.

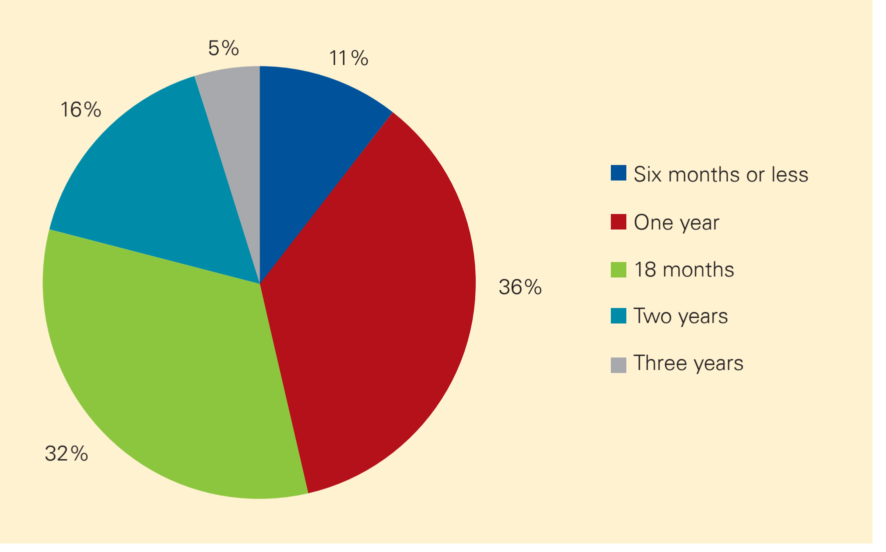
Key insight
A massive 89% of respondents believed that the global economic downturn would last one year or more.

Closely monitor the impact of the economic downturn on the company

Understand the economic downturn's impact on the company's earnings, cash flow, liquidity and monitor key indicators of trouble. Stay focused on the company's control environment and risk management process to ensure they are robust and resilient enough to address signs of trouble brewing, especially the impact upon the company's workforce in the name of cost containment.

Roundtable Survey

Q1: How long do you believe the current global economic downturn will last?



Other insights:

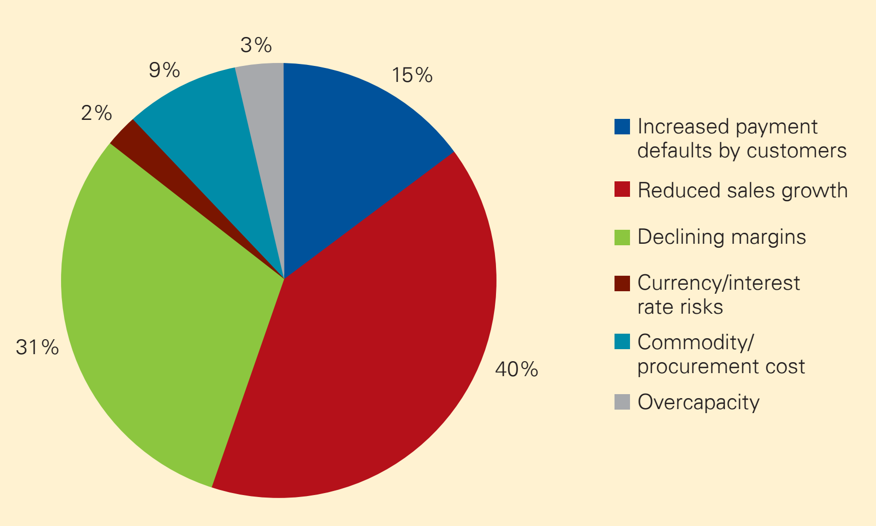
- Timely and accurate forecast of information is critical to getting a clear picture of where the company is heading. Closely monitor forecast earnings and cash flow.
- Identify "red flags", on a more frequent basis, on potential risks that could influence the company's performance, including forecast earnings and cash flow.
- Cost-down exercises to conserve resources seem to be the order of the day.
- To reassess whether the risk management initiatives and the related internal controls are adequate in the light of the increased financial pressure on the company and its employees.

Key insight
86% of participants were concerned with the 3 risks involving delinquent receivables, reduced sales growth and declining margins; only 3% of respondents were concerned with overcapacity.

Monitor the company's exposure to delinquent receivables, declining orders and margins

Apart from the fear that customers may fail to honour their obligations, many Roundtable attendees expressed concern about the pressure on their companies' bottom line from reduction in sales growth and declining margins, culminating from softening demand and cost down measures instituted by customers. These 3 risks received a hefty **86%** response, in total, from the attendees.

Q2. What is the biggest challenge facing your company as a result of the current economic downturn?



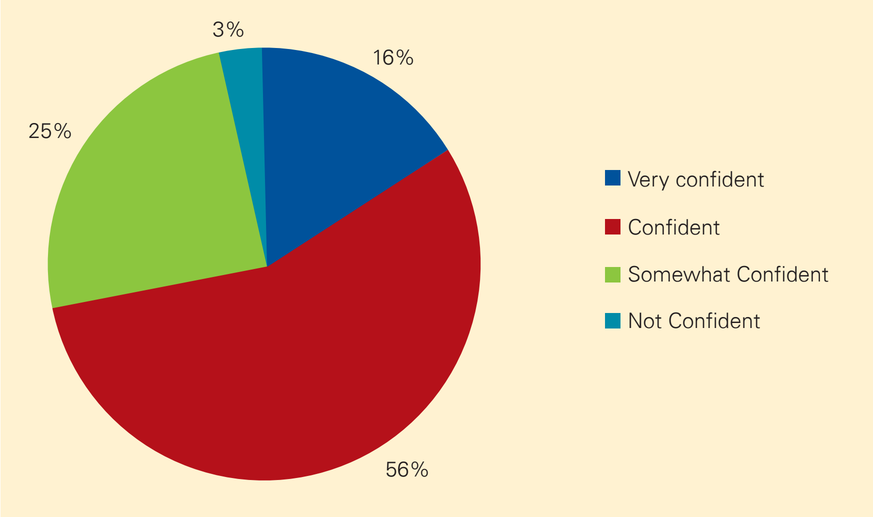
Other insights:

- Enhance credit control measures to flag out delinquent customers on a more frequent basis before debts escalate.
- Relook at pricing strategy and cost containment.
- Inventory management enhancement to address slow-moving items and obsolescence.
- Assess the risk of over-dependence on one (or a few) key customers.

Understand the impact of the economic downturn on the company's financials—particularly the balance sheet

Audit Committees are focusing on the company's investment portfolio—including debt and equity securities—to identify declines in value or impairments that should be reflected in the financials, following the introduction of Financial Reporting Standard (FRS) 139/IAS 39 on the "mark to market" principle which is already mandatory for banks and financial institutions. They are also helping to ensure that Management has identified possible impairment of goodwill, deferred taxes, patents, and other intangibles (and any "triggering events" for impairment evaluation), and that fair values determined by Management and valuation experts are reasonable. In short, the balance sheet is front and centre.

Q3. How confident are you that Management understands the company's exposure to key third parties, e.g. customers, suppliers, partners, who may be in financial distress?



Key insight
97% of respondents are at least somewhat confident that Management understands the company's exposure to key third parties who may be in financial distress.

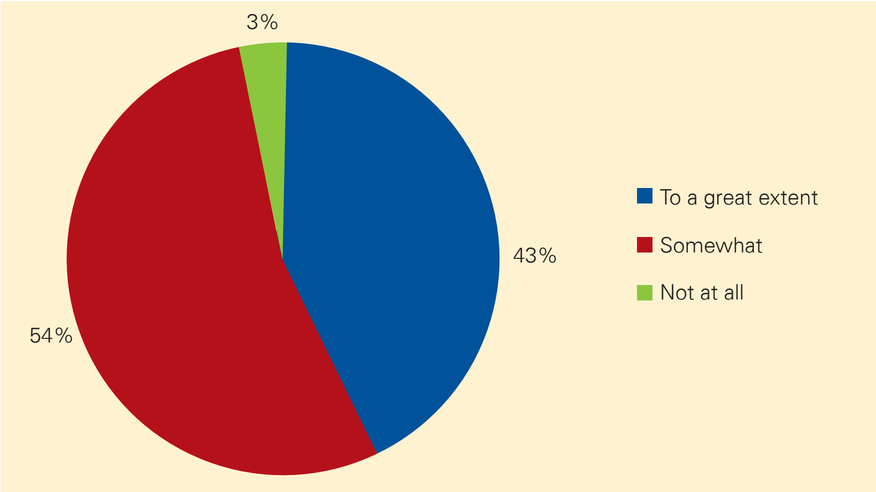
Other insights:

- Understand how changes in financial markets have impacted the valuation of assets, both tangible and intangible, for impairment provisioning purpose, including the "mark to market" principle.
- Consider the integrity and reasonableness of assumptions used in Management's accounting judgments and estimates, e.g. "*Who makes the decisions on assumptions that underlie estimates*"?

Help ensure that Management's disclosures clearly reflect the impact of the economic downturn on the company

Pay particular attention to disclosures regarding the impact of the economic downturn on the company's performance and financial condition. Understand how the application and impact of fair value accounting are described in the financial statements and announcement to Bursa Malaysia Securities Berhad. Consider whether the description of the company's market risk, credit risk, interest rate risk and liquidity risk are reflective of the conditions faced by, and specific to, the company, including measures taken to address them and the ability of the company to continue as a going concern.

Q4. To what extent has the current economic downturn caused your board to reconsider the adequacy and effectiveness of the company's governance processes for managing the business risks?



Key insight
A massive 97% of participants felt the economic downturn has caused their boards to reconsider the adequacy and effectiveness of the company's governance processes for managing the business risks.

Other insights:

- Understand what information Management is providing to the Audit Committee, board, rating agencies and the investor community regarding the impact of the economic downturn on the company. The Malaysian Code on Corporate Governance (Revised 2007), in one of its Best Practices, requires the Audit Committee chairman to engage continuously with senior management, including the executive chairman, chief executive officer and finance director; and the internal and external auditors so that he can be informed of issues affecting the company in a more timely manner.
- The Best Practice also requires the head of internal audit to report to the Audit Committee relating to the governance, risk management and internal control processes on a periodic basis – this could never be timelier for a situation such as an economic downturn faced by the company.
- Expect to take more time to review and discuss disclosures (financial statements, financial announcements, etc) with Management.

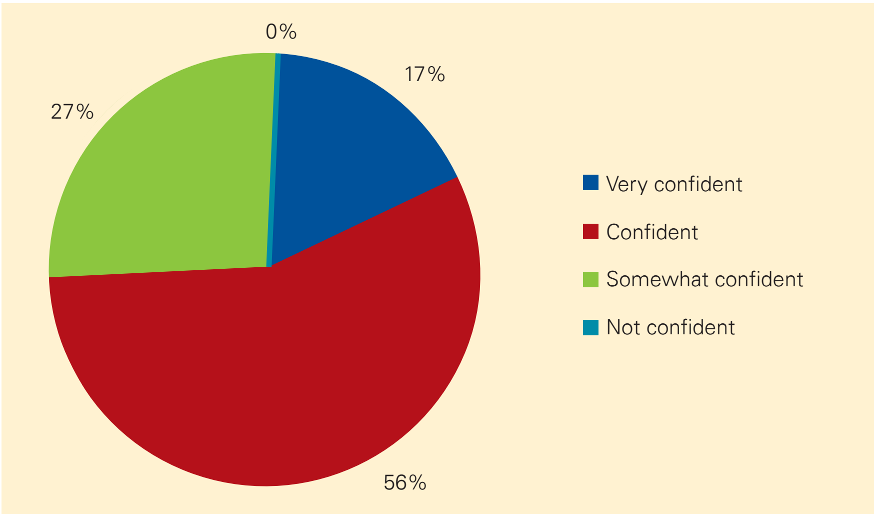
Reassess risk management—including the quality of the company's risk intelligence, and the quality of the board's "risk conversations."

Risk management has been on the radar (if not a top priority) for many companies and their boards, yet it continues to pose significant challenges to those entrusted with the risk management process and reporting – some of such challenges being the risk parameters (i.e. measuring "yardsticks") to be used in rating the risks; consistent understanding of risk appetite and capacity; risk vocabulary and terminologies; and risk treatment options, e.g. whether to terminate, reduce, accept or transfer the risk.

Audit Committees can help "move the ball forward" by reassessing the governance processes for managing and overseeing risk, and ensuring that risk discussions are healthy, comprehensive and productive.

Key insight
Participants unanimously agreed that their Management has good understanding of their companies' current risk profiles.

Q5. How confident are you that Management has a good understanding of the company's current risk profile?



Key questions to be considered by the Audit Committee/board:

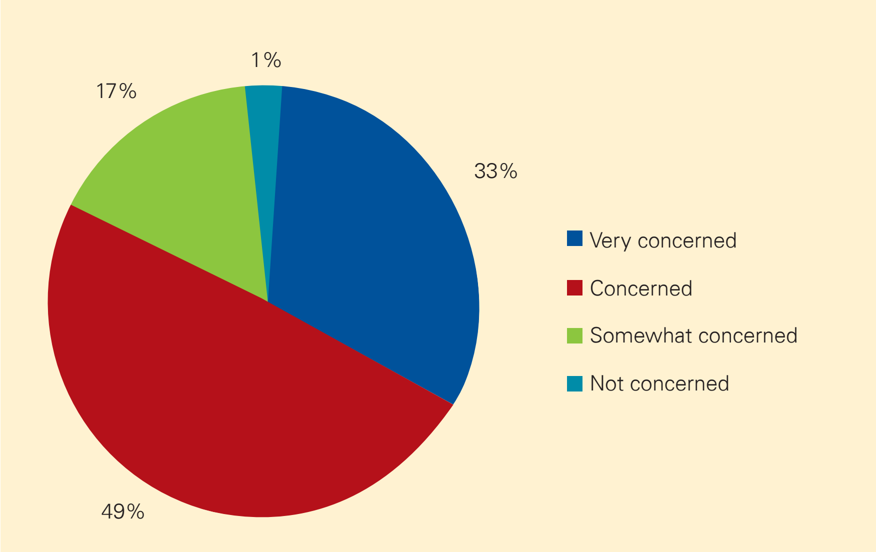
- Can Management provide a holistic view of the company's major risks, both on and off the balance sheet, as well as financial and non-financial risks that may have financial implications?
- Are key result areas determined, with key risk indicators reported, together with pertinent key performance indicators?
- Are the top risks facing the company understood and agreed upon, vis-à-vis the risk appetite and capacity of the company?
- How tolerant is Management of risks (including low probability yet "catastrophic" risks)?
- How rigorously does Management stress-test key risk assumptions?
- Are the board's information sources sufficiently varied and objective enough for corroboration, if needed?
- How does culture, including incentive compensation, impact the company's risk profile?
- How are risk remediating measures deployed, including their timeliness and effectiveness?

Consider how the emerging environment might impact the company's strategy, competitiveness, and risk profile

With the business world changing dramatically, e.g. a power shift towards the Asian economy, more stringent requirements by regulators, new business models driven by technology and regionalization (of economic power blocs and caucuses), and the prospects of more shareholder activism, companies and their boards are considering what the emerging business environment will look like, and the challenges and opportunities it presents.

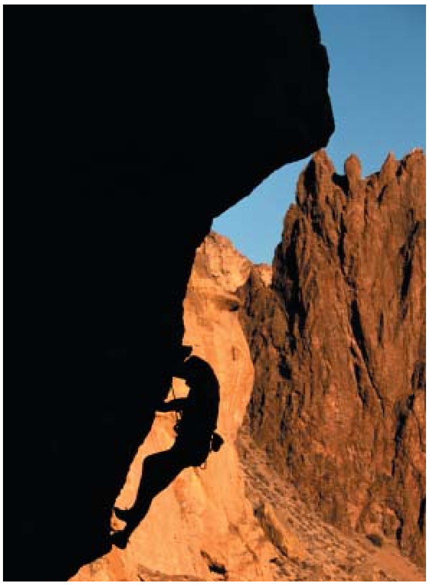
Key insight
99% of participants expressed concern about their companies' ability to maintain their competitive position in the emerging business and regulatory environment.

Q6. How concerned are you about your company's ability to maintain its competitive position in the emerging business & regulatory environment?



Key questions covered:

- Does Management understand how this new environment will impact the company's risk profile such that appropriate risk treatment options leading to pertinent action plans are formulated for the company to forge ahead?
- Will the company's strategy and business model continue to be viable?
- Is Management considering potential opportunities, e.g. acquisitions/ divestitures, or recruiting new talent, presented by the emerging environment?



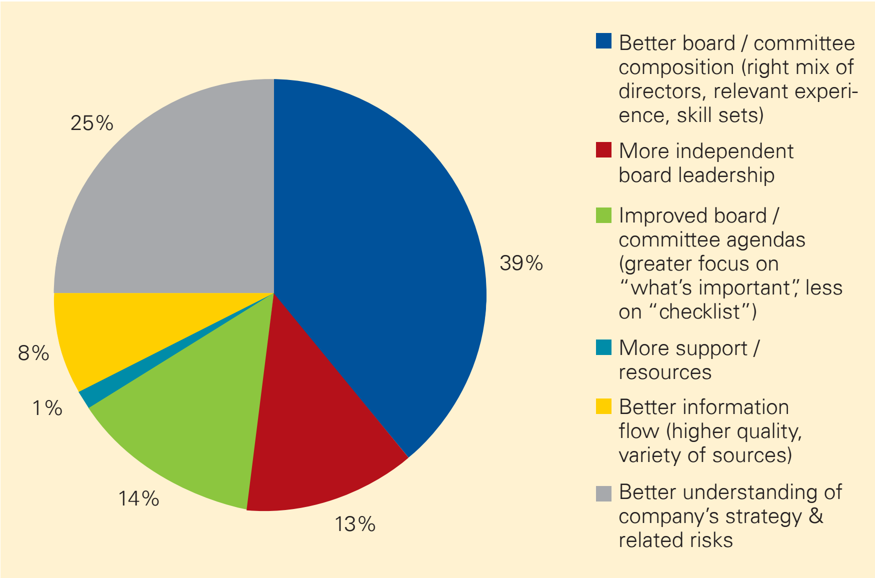
Key insight
A cumulative 64% of respondents believed that better board/committee composition and better understanding of company's strategy and related risks would most improve the effectiveness of their boards

Recognize the new challenges and expectations for boards and Audit Committees, and take a hard look at opportunities to improve

The call is for non-executive directors to be familiar with the business landscape and challenges the company is engaged in, and faced with, on an ongoing basis. An exercise of foresight and experiential wisdom by those entrusted with governance is certainly needed to spearhead the company's foray into the business realm to realize its vision and mission in an ever-changing economy.

A majority of attendees (**64%**), as expected, agreed that a better board/committee composition (i.e. right mix of directors, relevant experience and skill sets), augmented by a better understanding of company's strategy and related risks are instrumental and pivotal towards enhancing boardroom excellence and the board's effectiveness.

Q7. Going forward, which one of the following would most improve the effectiveness of Boards?



Audit Committees/boards can count on increased expectations for good governance and effective oversight, and they are refocusing on the basics - like having the right mix of committee members, experience and skill sets (in particular, the financial literacy requirement for ALL Audit Committee members), understanding the company's strategy and financial risks, and the adequacy of support for the Audit Committee (for example, the mandatory external and internal audit functions) - which are essential to asking the right questions and challenging Management's assumptions.

The board is reconsidering the adequacy and effectiveness of risk management, in particular the use of Key Risk Indicators (largely based on continuous auditing/ monitoring process embedded in the company) as a forewarning on what is to come, the frequency of risk update, the timeliness of action plans to remediate the issues at hand and monitoring their effectiveness thereof.

Concluding comments and insights

Corporations may have established risk management framework to identify, evaluate, manage, monitor and report risks faced by their businesses on an ongoing basis. It is, nonetheless, vital for timely action to be taken at board level on "red flags" that are identified through the various lines of reporting. Risk reporting should not be taken lightly – the board needs to rigorously deliberate on the adequacy and effectiveness of remedial measures taken by Management to address areas of higher vulnerability, especially when key risk indicators point towards deterioration on the measures purportedly taken to address the said risks.

As such, having a structured risk management framework with the relevant policies and procedures is unlikely to be adequate – the willpower of the Audit Committee or the board, as the case may be, to act on areas of higher risks is pivotal towards deploying the framework in substance rather that its mere form. To this end, the key performance indicators and the key risk indicators are suitable barometers to gauge whether risks faced by the organization are being effectively managed.

Whilst the Malaysian economy may have shown signs of recovery, the Audit Committee's vigilance in the discharge of its vanguard role on corporate governance cannot be overemphasized – indeed, the Audit Committee can do well in embracing certain "To-Do" items (Refer to **Appendix 2** for full details of such initiatives) in year 2010, as concrete actions towards enhancing its stewardship role.

Appendix 1

Building a more comprehensive risk oversight system

The Blue Ribbon Commision (BRC) believes that the following principles provide a foundation that boards can use to build a more comprehensive risk oversight system tailored to the specific needs of their respective companies:

1. *Understand the company's key drivers of success*
   Effective oversight of risk, including constructive discussions with Management about risk, cannot take place unless directors have a solid understanding of the company's business and industry and continue to stay abreast of the issues and developments affecting the company;

2. *Assess the risk in the company's strategy*
   The board's or Audit Committee's oversight of risk should begin with assessing the appropriateness of the company's strategy and the risk that is inherent in that strategy and establishing the company's risk appetite;

3. *Define the role of the full board and its standing committees with regard to risk oversight*
   The BRC recommends that, as a general rule, the full board should have primary responsibility for risk oversight, with the board's standing committees (i.e. including Audit Committees) supporting the board by addressing the risks inherent in their respective areas of oversight;

4. *Consider whether the company's risk management system, including people and processes, is appropriate and has sufficient resources;*

5. *Work with Management to understand and agree on types (and format) of risk information that the board requires*
   Many directors express concern that the quality and quantity of the risk information they receive hinders their oversight efforts;

6. *Encourage a dynamic and constructive risk dialogue between Management and the board, including a willingness to challenge assumptions*
   The important question for every board is whether it has an engaged culture. Business leaders today understand that we have reached an inflection point for corporate governance. Management and the board act as a team, yet, effective oversight requires that directors understand and test Management's strategic assumptions, as well as its core risk assumptions and assessments. An open, participatory culture is essential;

7. ***Closely monitor the potential risks in the company's culture and its incentive structure***
   Among the most critical risks facing any organisation today are the risks posed by its "tone at the top", culture and incentive structure;

8. ***Monitor critical alignments of strategy, risk, controls, compliance incentives and people***
   Understanding and strengthening these critical alignments is essential to the successful execution of strategy;

9. ***Consider emerging and interrelated risks: what's around the next corner?***
   Beyond current strategic decisions, the board needs to look forward to understand elements in the environment – macroeconomic, political, technological, demographic, climatic / environmental – that may impact the conduct and effectiveness of the business in the future; and

10. ***Periodically assess the board's risk oversight processes: Do they enable the board to achieve its risk objectives?***
    Just as the board must monitor and test the effectiveness of Management's system for managing risks, it must also look closely at its own processes and capabilities to oversee risk.

Appendix 2

10 "To-Do" items for Audit Committees' Consideration in year 2010

1. *Stamp its control over the Audit Committee agenda*

   The challenges posed by the economic downturn and changes to regulatory requirements – declining demand/margins, surplus capacity, counterparty risks, impairment, new financial reporting standards - have dominated Audit Committee agendas. As signs of recovery emerge, take the opportunity to develop more focused (yet flexible) agendas, with an eye on the company's key financial reporting risks. To improve the efficiency of Audit Committee meetings, insist on quality pre-meeting materials, spend less time on low-value or checklist activities, and engage in discussions rather than merely listening to presentations. Do not let compliance activities crowd out substantive discussions. In short, look at doing more "Question and Answers" sessions and less PowerPoint presentations. For guidance on key questions that may be posed to Management, reference may be made to the *Corporate Governance Guide – Towards Boardroom Excellence,* a publication of Bursa Malaysia aimed to provide guidance to Directors of public listed companies in the discharge of their stewardship responsibilities.

2. *Understand the risks posed by cost reductions made in response to the economic downturn*

   Cost cutting has, invariably, been a key response of most companies to the economic downturn. Every board and Audit Committee should be asking whether the company's delivery model has been changed permanently, and whether a "cost-reduced" business model can be sustained. Did we cut too much? How quickly can we restore critical infrastructure such as IT and sales force? As companies cut costs and reduce their workforce, the control environment becomes even more critical and vulnerable. Now is not the time to cut back on the internal audit's budget. (Please refer to #6 below).

3. *Focus closely on all financial communications*

   Earnings releases and scripts for financial analysts often pose more issues than the audited financials because they contain important business information – which often does not come from the financial reporting system; is not audited; and may not be subject to the same level of internal controls as numbers coming from the financial reporting systems. If you have not already done so, given the uncertainties created by the economic downturn, reconsider the types of earnings guidance the company issues. Engage early-on in reviewing 2010 financial disclosures, particularly any new disclosures becoming effective due to new or revised reporting standards.

4. *Continue to monitor fair value issues, impairments, and Management's assumptions underlying critical accounting estimates*
   These issues, together with going-concern challenges, will continue to be a major area of focus for Audit Committees. At the same time, there are important new financial reporting developments – including changes in accounting for financial instruments, revenue recognition, business combinations and joint ventures that may require the Audit Committee's attention. Set aside time at each Audit Committee meeting for an in-depth discussion into the specific financial reporting developments impacting the company.

5. *Rethink the Audit Committee's role in risk oversight—with an eye on narrowing the scope*
   The tremendous focus on risk today provides an opportunity for the board to reassess the Audit Committee's (and the other standing committees') role in overseeing risk. Does the Audit Committee have the expertise and time to deal with strategic, operational, and other risks? Is the expertise of other board members being leveraged upon? Audit Committees already have a lot on their plates with oversight of financial reporting risks.

6. *Ensure internal audit is properly focused and fully utilised*
   Now that the internal audit function has been mandated for public listed companies, there is a need to refine internal auditor's role, and focus the activities of internal audit on key areas of risk, as well as risk management in general. Internal audit is not accountable or responsible for risk management, but it should be able to provide the relevant and necessary assurance to the Audit Committee with regard to the adequacy of the company's risk management processes, apart from the usual internal control issues. Internal audit is most effective when it is focused on risk. Accordingly, the internal audit plan should be risk-based and focus on critical risks to the business, not merely on compliance and financial risks. *In fact, the internal audit would do well to cover governance, risk and controls in its scope of work and the competency of the internal auditors appraised on a periodic basis* (Source: International Professional Practices Framework of the Institute of Internal Auditors, Inc).

   Where there is a dearth in expertise to assess specialized areas, e.g. safety, health & environment; engineering & maintenance; etc, the Audit Committee should consider deploying resources independent of the process owners, in liaison with the internal audit function, to provide the necessary assurance to assist the Audit Committee discharge its responsibilities.

7. *Prepare for the potential impact of changes in regulatory requirements that have an implication on compliance, risk and processes*
   Major regulatory changes, for example the recent Bursa Malaysia's Listing Requirements for the Main and ACE Markets; new Financial Reporting Standards adopted in Malaysia and the impending convergence of International Financial Reporting Standards, targeted on 1 January 2012, as well as the Goods and Services Tax (replacing the Sales and Services Tax) to be implemented soon, are but some of the legislative changes that Audit Committees need to be apprised, especially on the company's compliance obligations thereof. These, in turn,may require new or modified compliance, risk, and governance oversight processes.

8. *The economic downturn and its after effects continue to put pressure on fraud risk management programmes - be vigilant*

   The economic downturn has placed tremendous pressure on Management to achieve operating results. At the same time, cost cutting and workforce reductions may have exacerbated these pressures. How has the company treated its employees? How do they think they have been treated? A comprehensive review of the company's fraud risk management programme, including the formalization of whistle blowing initiatives, may be in order. Having the right "tone at the top", and throughout the organisation, is undeniably crucial to enable the board to be perceived "walking the talk".

9. *Help to link change and risk - monitor critical alignments*

   Change may create risk. During times of dramatic change, the risk of misalignment of, in particular, the company's strategy, goals, risk, controls, compliance, incentives, and people, rises exponentially. Given its role in the oversight of risk, internal controls, compliance, and ultimately the impact of significant changes to the company's financials, the Audit Committee is in a unique position to help reduce the risk of misalignment.

10. *Take a fresh look at the Audit Committee's composition and leadership*

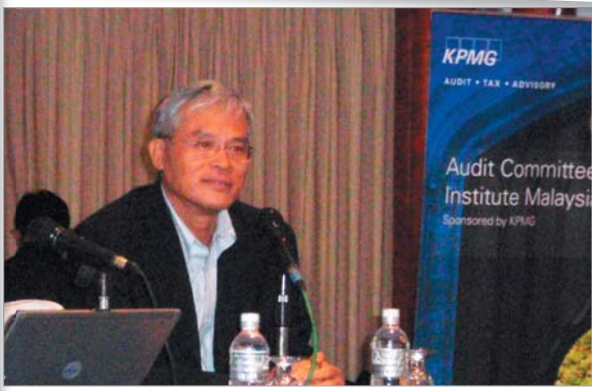
    The Audit Committee's effectiveness and accountability hinge on meaningful self-assessment of the Audit Committee, both as a group and as individual members. Take a hard look at the Committee's composition, independence, and leadership. Are all the members financial literate as prescribed by the Best Practice of the Malaysian Code on Corporate Governance (Revised 2007)? Do the members keep abreast of changes in regulatory requirements that may affect the discharge of the Committee's responsibilities, e.g. the latest changes in Financial Reporting Standards that have a bearing on the company? Is the Committee aware of the coming into force of the Audit Oversight Board (formed by the Securities Commission), one of whose responsibilities is to conduct inspections and monitoring programmes on auditors (of public interest entities) to assess the degree of compliance of auditing and ethical standards? Is there a need for a "fresh set of eyes"?

Audit Committee Institute Roundtables 2009
Guest speakers stressing their points...

PEMUDAH Co-Chairman and Managing Director of Royal Selangor,
YBhg Tan Sri Datuk Yong Poh Kon
Topic: PEMUDAH – The Taskforce to Facilitate Business
Kuala Lumpur

Dr. Sharifuddin Bin Abdul Wahab,
Deputy Managing Director of Naim Holdings Berhad
Topic: Succession Planning – Often Requested, Rarely Delivered
Kuching

Chairman of Shell Malaysia and President of Business Council for Sustainable Development in Malaysia (BCSDM) ,
YBhg Dato' Saw Choo Boon
Topic: BCSDM's role on Sustainable Development in Malaysia
Kuala Lumpur



Chairman of the Malaysian American Electronics Industry
YBhg Dato' Wong Siew Hai
Topic: How does the Current Global Economic Crisis affect the E&E Sector in Penang
Penang

Senior Country Officer and
Head of Equities Broking of JP Morgan Chase,
Mr. Clement Chew
Topic: Outlook for Bursa Malaysia – Post Credit Crisis
Kuala Lumpur

Co-Director, Corporate Governance and Financial Reporting Centre,
Professor Mak Yuen Teen
Topic: Issues Facing Independent Directors
Johor Bahru

Audit Committee Institute Roundtables 2009 Facilitators and invited guests...

KPMG Johor Partner, Ang Ah Leck, ACI Malaysia Chairman, David Lim and KPMG Internal Audit, Risk & Compliance Services Partner, Lee Min On

Johor Bahru

Dr. Sharifuddin Bin Abdul Wahab and KPMG Kuching Partner, Chin Chee Kong

Kuching

Y Bhg Datuk Mike Krishnan
Audit Committee Member of Carlsberg Brewery (M) Berhad

Kuala Lumpur

KPMG Penang Partner, Ooi Kok Seng

Penang

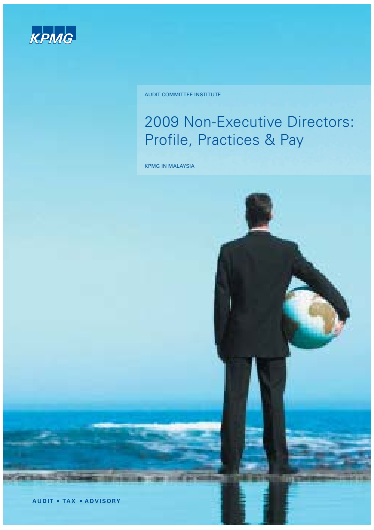
KPMG Audit Partner, Mohamed Raslan, ACI Malaysia Chairman, David Lim and KPMG Internal Audit, Risk & Compliance Services Partner, Lee Min On

Kuala Lumpur

KPMG Managing Partner, Seow Yoo Lin and Datuk Muhammad Feisol Hj Hassan from LCTH Corporation Berhad

Kuala Lumpur

ACI Thought Leadership



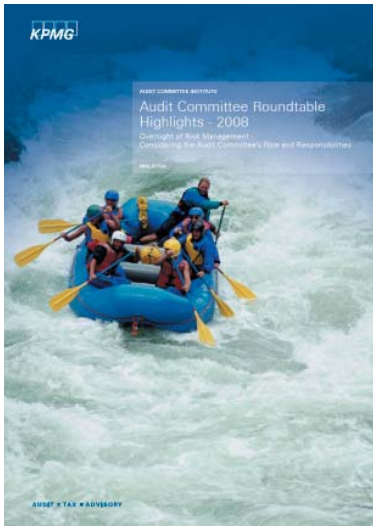
2009 Non-Executive Directors ("NEDs"): Profile, Practices and Pay

ACI's maiden study on the profile, practices and pay of NEDs of top 300 Market Capitalised Bursa listed companies. This publication has been very well received by Directors as well as other corporate players and copies thereof can be downloaded from

www.kpmg.com.my/aci

Audit Committee Roundtable Highlights – 2007: Building a Framework for Effective Audit Committee Oversight

In 2007, ACI Malaysia held five series of roundtable discussions where 90 Audit Committee members and directors attended to explore the audit committee framework and oversights. This is the first report by ACI Malaysia which is a compilation of the feedback provided by the participants at the roundtable discussion series.



Audit Committee Roundtable Highlights – 2008: Oversight of Risk Management - Considering the Audit Committee's Role and Responsibilities

To help Audit Committee members, directors and senior management gain a better understanding in the oversight of the risk management process, ACI Malaysia hosted a series of roundtable discussions in 2008 entitled, "Oversight of Risk Management: Considering the Audit Committee's Role and Responsibilities". This report is a compilation of the feedback provided by Audit Committee members and directors at the roundtable discussion series.

Contact Us

To learn more about Audit Committee Institute Malaysia or to access our resources, please visit our web site (www.kpmg.com.my/aci) or contact us by e-mail (aci@kpmg.com.my).

You may also contact the following KPMG professionals at the Audit Committee Institute Malaysia:

David Lim
Phone: (603) 7721 3002
E-mail: davidlim@kpmg.com.my

Mohamed Raslan Abdul Rahman
Phone: (603) 7721 3014
E-mail: mraslan@kpmg.com.my

Lee Min On
Phone: (603) 7721 7092
E-mail: minonlee@kpmg.com.my

KPMG
Level 10, KPMG Tower
8, First Avenue
Bandar Utama,
47800 Petaling Jaya, Selangor
Phone: +60 (3) 7721 3388
Fax: +60 (3) 7721 7288/7388/7998

kpmg.com.my