

# AUDIT AND RISK COMMITTEE REPORT

The Audit and Risk Committee Report provides insights into the manner in which the Audit and Risk Committee has discharged its function for the Group in the financial year ended 31 December 2018 ("FY 2018") and also a summary of its various activities.

## FORMATION

The Audit Committee was established as a committee of the Board of Directors of GHF Systems Berhad on 11 February 2003.

On 8 April 2013, the Board of Directors resolved that the Audit Committee be renamed as the Audit and Risk Committee ("ARC" or the "Committee").

## COMPOSITION AND MEETINGS

The ARC comprises three members, all of whom are Non-Executive Directors with the majority being independent. All members of ARC are financially literate, with a Director being a member of the Malaysian Institute of Accountant, and have sufficient understanding of the Company's business.

Practice 8.4 of the Malaysian Code on Corporate Governance ("MCCG") states that, the Audit Committee shall comprise solely Independent Directors. The Board is aware that the current composition is not in line with the desire practice and believes that the current Audit Committee is sufficient to exercise their judgment in an informed and impartial manner to fulfil the Audit Committee's responsibilities, especially in overseeing the areas of financial reporting, related party transactions as well as conflicts of interest, internal control environment, internal audit and external audit processes.

The ARC held five (5) meetings during FY 2018. The Company Secretary is responsible for distributing the notice of the meetings to the Committee members prior to each meetings and recording the proceedings of the meetings thereat.

The ARC comprises the following Directors and their attendances at the five (5) meetings held during FY 2018 are as follows:-

Name of The Committee Member	Attendance
Dato' Chan Choy Lin ( <i>appointed wef. 25 June 2018</i> ) <i>Chairperson</i> <i>Independent Non-Executive Director</i>	2/2
Datuk Kamaruddin Bin Taib <i>Member</i> <i>Independent Non-Executive Director</i>	5/5
Hossameldin Abdelhamid Mohamed Aboumoussa <i>Member</i> <i>Non-Independent Non-Executive Director</i>	5/5
Fong Seow Kee ( <i>resigned wef. 31 July 2018</i> ) <i>Former Chairman</i> <i>Senior Independent Non-Executive Director</i>	3/3

The Group Chief Financial Officer ("CFO") was invited to all ARC meetings to facilitate direct communication in relation to the Group's financial results while the Risk Management Committee ("RMC") Chairman i.e. Group Chief Executive Officer ("CEO") was invited to all ARC meetings to provide information regarding the Group's Risk Management activities. The Head of Group Internal Audit ("GIA"), relevant members of the Management, and the External Auditors were also invited to attend the meetings of the Committee, where appropriate, to brief the ARC on the relevant audit findings or matters.

# AUDIT AND RISK COMMITTEE REPORT

CONT'D

## COMPOSITION AND MEETINGS (cont'd)

The ARC held two private meetings with the External Auditors in FY 2018 without the presence of the Management. At these meetings, the ARC enquired about Management's co-operation with the External Auditors, their sharing of information and the competencies and adequacy of resources in the financial reporting functions, particularly in relation to the applicable Malaysian Financial Reporting Standards ("MFRS"). The ARC Chairperson also permitted the External Auditors to contact her at any time that they became aware of incidents or matters in the course of their audits or reviews that needed her attention or that of the ARC or Board.

Minutes of each ARC meetings were recorded and tabled for confirmation at the following ARC meeting and subsequently presented to the Board for notation.

## TERMS OF REFERENCE ("TOR")

The Terms of Reference for the ARC which is in line with the provisions of the Main Market Listing Requirements of Bursa Malaysia ("MMLR") and other best practices are accessible to the public on the Company's official website at [www.ghl.com](http://www.ghl.com).

## SUMMARY OF ACTIVITIES DURING FINANCIAL YEAR ENDED 31 DECEMBER 2018

The ARC reports regularly to the Board on its activities, deliberations and recommendations in discharging its duties and responsibilities as set out in its Terms of Reference, which the Committee has reviewed to ensure it is in line with MMLR and MCCG.

The main activities undertaken by the Committee during the year under review are summarised as follows:-

### Financial Reporting:

- a. Reviewed the audited financial statements of the Group and of the Company together with the External Auditors and Group CFO to ensure compliance of the financial statements with the provisions of the Companies Act 2016 and the applicable approved accounting standards as per the Malaysian Accounting Standards Board ("MASB") prior to recommending the same to the Board for approval; and
- b. Reviewed the quarterly unaudited financial results of the Company and the Group together with the Group CFO, focusing particularly on significant changes to accounting policies and practices, significant or unusual events, compliance with accounting standards and other legal requirements prior to recommending the same to the Board for approval and release to Bursa Malaysia.

### External Audit:

- a. Reviewed the performance, accessed the suitability and of the External Auditors' independence in fulfilling their responsibilities as set out in the *By-Laws (On Professional Ethics, Conduct and Practice)* for Professional Accountants as adopted by Malaysian Institute of Accountant and the Group Policy Statement on Auditor Independence by covering the calibre of the external audit firm; quality of processes and performance during the audit; skills, industrial knowledge as well as objectivity; and their communications with ARC;
- b. Reviewed and discussed the External Auditors' audit planning memorandum covering the audit scope, audit plan, key audit areas and proposed fees for the statutory audit and other non-audit services based on the External Auditors' presentation of audit strategy and plan to ensure that their scope of work adequately cover the activities of the Group;
- c. Reviewed and discussed with the External Auditors on the audit results, audit reports and financial statements of the Group;
- d. Reviewed and discussed with the External Auditors on the issues highlighted in the management letter, the response from the Management and ensure, where appropriate, necessary corrective actions had been taken by Management. ARC also considered the External Auditors' suggestions to improve the accounting procedures and internal control measures;
- e. Reviewed and discussed the non-audit fees in respect of services rendered by External Auditors if any, in line with the Group Policy Statement on Auditor Independence. During FY 2018, non-audit services had been rendered by the External Auditors for the Group amounting to RM146,655 for the review of Statement of Risk Management and Internal Control, due diligence on potential investments, advisory on accounting standards MFRS and briefing on tax standards; and
- f. Recommended to the Board on the re-appointment of BDO PLT as External Auditors and their fees.

# AUDIT AND RISK COMMITTEE REPORT

CONT'D

## SUMMARY OF ACTIVITIES DURING FINANCIAL YEAR ENDED 31 DECEMBER 2018 (cont'd)

### Risk Management and Internal Control:

- a. Reviewed the minutes of meeting and the progress of Risk Management Committee ("RMC") in its on-going identification and monitoring of key risks and the controls and processes implemented in managing these risks;
- b. Reviewed the key risks as reported by the RMC in respect of businesses and operations;
- c. Reviewed the action plans by RMC to ensure significant internal controls are promptly implemented to mitigate the key risks identified;
- d. Evaluated, together with Group CEO, Group CFO and Group CRO, the overall adequacy and effectiveness of the system of internal controls during the financial year through a review of the results of work performed by Internal and External Auditors and the RMC;
- e. Reviewed and revised the whistle blowing policy; and
- f. Monitored the whistle blowing programme as part of the risk management structure and good corporate governance practice.

### Internal Audit:

- a. Reviewed and assessed the adequacy of resources and reporting structure of Group Internal Audit ("GIA") to ensure the audit plan is executed effectively and independently;
- b. Reviewed the competency of GIA to ensure GIA are provided with adequate trainings and guidance to possess the required skill sets and knowledge;
- c. Reviewed the annual internal audit plan to ensure adequacy of scope and coverage of the auditable areas i.e. high risk areas were audited on a regular basis;
- d. Reviewed the status of internal audit plan on a quarterly basis;
- e. Discussed the major internal audit findings, weaknesses and significant internal audit matters raised by the GIA and other outsourced service providers for special engagements. The ARC also sought Management's commitment for corrective actions as recommended in internal audit reports; and
- f. Reviewed the status of audit findings in ensuring appropriate action plans are implemented timely by the Management, with no audit issues left unaddressed.

### Recurrent Related Party Transaction:

- a. Reviewed annually the recurrent related party transactions undertaken by the Group for compliance with the MMLR and the appropriateness of such transactions entered into by the Company and its subsidiaries to avoid potential or actual conflict of interest to ensure the decisions are based on the best interest of the Company and its shareholders.

### Other activities:

- a. Reviewed the Statement on Risk Management and Internal Control, Corporate Governance Overview Statement, and Audit and Risk Committee Report prior to the Board's approval for inclusion in the Annual Report;
- b. Reviewed the Corporate Governance Report prior to the Board's approval for submission to Bursa Malaysia; and
- c. Conducted a self-assessment to evaluate the Committee's overall effectiveness in discharging its responsibilities.

# AUDIT AND RISK COMMITTEE REPORT

CONT'D

## INTERNAL AUDIT FUNCTION

The Group has established an internal audit function as a key component of its internal control appraisal process. The Head of Internal Audit reports independently to the ARC and is guided by a formalised Internal Audit Charter and The Institute of Internal Auditor's International Professional Practice Framework.

The main responsibility of the GIA function is to undertake independent assessments on the adequacy and effectiveness of internal controls pertaining to key areas as follows:-

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets; and
- Compliance with applicable laws and regulations.

In attaining this, the GIA adopts a risk-based approach towards undertaking internal audit reviews for the Group based on an annual internal audit plan approved by the ARC. The GIA has also incorporated a structured internal audit rating methodology that appraises an overall rating of an audit report by a scoring system. The said system provides the Management and the ARC for a consistent and concise assessment of the risks posed by the area or function being reviewed.

The major activities undertaken by the internal audit function were summarised as follows:-

- Developed an annual internal audit plan;
- Collaborated with Group Legal and Compliance Department to continuously monitor the Group's compliance with the MCCG Guide, MMLR, the relevant rules and regulations;
- Reviewed the adequacy and effectiveness of internal controls pertaining to key business processes of the Group's subsidiaries;
- Undertook follow up audits on the implementation of action plans committed by Management to ensure all previous audit findings highlighted are adequately addressed;
- Identification of areas of opportunities for improvement in respect of operations and processes; and
- Attended RMC as an observer to provide the ARC with an independent assessment of the adequacy and reliability of the risk management processes and compliance with risk policies.

During the FY 2018, the GIA had conducted independent reviews on internal control and compliance for the following areas as per Internal Audit Plan approved by ARC:

- Risk Management;
- Operations Process;
- Corporate Sales Process; and
- Merchant and Physical Card Sales Management.

The results of all internal audit reviews together with the recommendations are presented to the Management for discussion and agreement on necessary corrective action plans. At each ARC meeting, the Head of Internal Audit updates the ARC of the status of ongoing audits and where appropriate, presents internal audit reports and observations. Relevant Management personnel are invited to be present during such presentations. Periodic follow up audits are also performed by the GIA in ensuring corrective actions arising from the previous internal audit findings had been implemented accordingly. The Committee considers the results of audits undertaken and evaluates the adequacy of Management's responses to matters raised.

The Company has allocated a reasonable budget to enable the GIA team to attend briefings, conferences and seminars organised by the relevant professional bodies in order for the GIA team to stay abreast with the latest developments in auditing standards globally.

The total cost incurred by GIA in discharging its functions and responsibilities, in respect of the financial year was approximately RM260,000.