

AUDIT COMMITTEE REPORT

During the financial year, the Audit Committee carried out its duties and responsibilities in accordance with its terms of reference and held discussions with the internal auditors, external auditors and relevant members of Management. The Audit Committee is of the view that no material misstatements or losses, contingencies or uncertainties have arisen, based on the reviews made and discussions held.

MEMBERSHIP AND TERMS OF REFERENCE OF THE AUDIT COMMITTEE

Membership

The Audit Committee is appointed by the Board of Directors from amongst the Non-Executive Directors and consists of not less than three (3) members, with a majority of them being Independent Directors.

The Chairman of the Audit Committee, Mr Pushpanathan a/l S A Kanagarayar is a member of the Institute of Chartered Accountants of Scotland, the Malaysian Institute of Certified Public Accountants ("MICPA") and the Malaysian Institute of Accountants ("MIA"). The other members of the Audit Committee are Mr M. Ramachandran A/L V D Nair, Dato' Soam Heng Choon and Datuk Dr. Choo Yuen May. Datuk Dr. Choo was appointed as member of the Audit Committee on 1 November 2016.

Meetings and Minutes

Four (4) meetings were held during the financial year with the attendance of the Chief Financial Officer, Head of Internal Audit, senior representatives of the external auditors and the Company Secretary.

A quorum consists of two (2) members present and both of whom must be independent Directors. Other Board members and Senior Management may attend meetings upon the invitation of the Audit Committee. Both the internal and external auditors, too, may request a meeting if they consider that one is necessary.

During the financial year, the Chairman of the Audit Committee had engaged on a continuous basis with Senior Management, Head of Internal Audit and the external auditors, in order to keep abreast of matters and issues affecting the Group.

Details of the Audit Committee members' attendance are tabled below:

	NO. OF MEETINGS ATTENDED
1 Pushpanathan a/l S A Kanagarayar <i>Independent Non-Executive Director (Chairman)</i>	4/4
2 M. Ramachandran A/L V D Nair <i>Senior Independent Non-Executive Director</i>	4/4
3 Dato' Soam Heng Choon <i>Non-Executive Director</i>	4/4
4 Datuk Dr. Choo Yuen May <i>Independent Non-Executive Director (Appointed on 1 November 2016)</i>	2/2

The Company Secretary acts as the secretary to the Audit Committee. Minutes of each meeting are distributed electronically to each Board member and the Chairman of the Audit Committee reports on key issues discussed at each meeting to the Board.

Authority and Duties

The details of the terms of reference of the Audit Committee are available for reference at www.ijm.com/plantation.

REVIEW OF THE AUDIT COMMITTEE

An annual assessment and evaluation on the performance and effectiveness of the Audit Committee was undertaken by the Board of Directors for the financial year ended 31 March 2017. The Audit Committee was assessed based on four (4) key areas, namely effectiveness and quality, internal and external audit, risk management and internal control and financial reporting, to determine whether the Audit Committee had carried out its duties in accordance with its terms of reference.

The Board is satisfied that the Audit Committee and its members discharged their functions, duties and responsibilities in accordance with the Audit Committee's terms of reference, and supported the Board in ensuring the Group upholds appropriate Corporate Governance standards.

AUDIT COMMITTEE REPORT

SUMMARY OF ACTIVITIES FOR THE FINANCIAL YEAR

During the year, the Audit Committee carried out the following activities:

1.0 Financial Reporting

- Reviewed the quarterly financial results and announcements as well as the year end financial statements of the Group, and recommended them for approval by the Board;
- In the review of the quarterly financial results and annual audited financial statements, the Audit Committee discussed with Management and the external auditors, amongst others, the accounting principles and standards that were applied and their judgement of the items that may affect the financial results and statements; and
- Confirmed with Management and the external auditors that the Company's and Group's annual audited financial statements have been prepared in compliance with applicable Financial Reporting Standards.

2.0 Internal Audit

- Reviewed and approved the annual audit plan proposed by the internal auditors to ensure the adequacy of the scope and coverage of work;
- Reviewed the effectiveness of the audit process, organisation structure, resource requirements (adequacy and suitability) for the year and assessed the performance of the overall Internal Audit function;
- The Audit Committee met with the Head of Internal Audit twice during the year, without the presence of management, to review key issues within their sphere of coverage and responsibility. During the private session with the Head of Internal Audit, it was noted that there were no major concerns from the Head of Internal Audit and she conveyed that Internal Audit had been receiving full cooperation from the Management and staff;
- Reviewed the audit reports presented by the internal auditors on their findings and recommendations with respect to system and control weaknesses. The Audit Committee then considered those recommendations including the Management's responses thereto, before proposing that those control weaknesses be rectified and recommendations for improvements be implemented; and
- Reviewed the internal auditors finding on the significant whistleblowing cases, if any, and management's responses and resolutions thereon.

3.0 External Audit

- Reviewed and endorsed the external auditors' audit strategy, audit plan and scope of work for the year;
- Oversee the relationship with the external auditors to ensure that their coverage is focused and that suitable overlap with the work of internal audit is achieved;
- Reviewed the assistance given by internal auditors to the external auditors;
- The Audit Committee deliberated on the external auditors' presentation of:
 - the terms, areas of responsibility, associated duties and scope of the audit as set out in the external auditors' engagement letter;
 - the overall work plan and fee proposal;
 - the major issues that arose during the course of the audit and their resolution;
 - key accounting and audit judgements;
 - the unadjusted differences identified during the audit; and
 - recommendations made by the external auditors in their management letters and the adequacy of management's responses thereto;
- Reviewed and approved the provision of non-audit services, if any, by the external auditors that were agreed prior to the commencement of their work and confirmed as permissible for the external auditors to undertake, as provided under the By-Laws of the Malaysian Institute of Accountants. The amount of audit fees incurred for the financial year ended 31 March 2017 are as follows:

FEES INCURRED	AUDIT FEES RM'000
The Company	145
The Group	558*

* includes an amount of RM319,000 paid to other auditors of subsidiaries in Indonesia

There were no non-audit services rendered during the year.

- The Audit Committee met with the external auditors twice during the year, without the presence of management, to review key issues within their sphere of coverage and responsibility. During the private session with the external auditors, it was noted that there were no major concerns from the external auditors and they conveyed that they had been receiving full cooperation from the Management and staff;
- Reviewed the external auditors report to the Audit Committee;
- Reviewed, assessed and monitored the performance, suitability and independence of the external auditors pursuant to the External Auditors Policy ("the Policy"). The Audit Committee undertook an annual assessment to assess the performance, suitability and independence of the external auditors based on the quality of service, adequacy of resources, communication and interaction, as well as independence, objectivity and professional skepticism. The external auditors provide an annual confirmation of their independence in accordance with the terms of all professional and regulatory requirements.

Pursuant to the Policy, the partner responsible for the Group audit is rotated at least every five (5) financial years;

Following its review of the external auditors' effectiveness and independence, the Audit Committee concluded that there was nothing in the performance of the external auditors which required a change and that the relevant independence continues to be met. Accordingly, the Board was recommended to re-appoint PricewaterhouseCoopers as auditors of the Company. A resolution for their re-appointment will be tabled for approval at the forthcoming Annual General Meeting; and

- Recommended the proposed audit fee for the Board's approval.

4.0 Risk Management Committee

- Reviewed the Risk Management Committee's reports, assessed the adequacy and effectiveness of the risk management framework and the appropriateness of Management's responses to key risk areas and proposed recommendations for improvements to be implemented.

5.0 Related Party Transactions

- Reviewed the related party transactions that arose within the Group to ensure that the transactions are fair and reasonable to, and not to the detriment of, the minority shareholders.

TRAINING

During the year, the Audit Committee members have attended conferences, seminars and training programmes. Details of these are available at www.ijm.com/plantation.

INTERNAL AUDIT FUNCTION

The Internal Audit function has been outsourced to the Internal Audit Department ("IAD") of IJM Corporation Berhad ("IJM") which is headed by Ms Ong Ai Lin, who is a member of the MICPA, MIA and an Associate member of the Institute of Internal Auditors (AIIA), who reports directly to the Audit Committee on its activities based on the approved annual Internal Audit Plan. The Board has chosen to outsource this audit function as the Board is of the opinion that the operations of the Group by itself cannot support an effective IAD in terms of availability of appropriate skills and resources, which a large IAD through IJM can provide. Currently, IJM's IAD comprises twenty-four (24) auditors with approximately 44,000 available man-hours per annum.

The level of expertise and professionalism at the end of the financial year end of 2016-2017 is as follows:

EXPERTISE CATEGORY	PERCENTAGE OF TOTAL AUDITORS
Diploma	4%
Bachelor's Degree	50%
Post Graduate (MBA, MA, etc)	8%
Professional (CPA, CIA, ACCA, CIMA, etc)	38%

The total Internal Audit costs incurred for the Group for the financial year ended 31 March 2017 was approximately RM600,000.

The internal auditors have direct access to the Audit Committee and the Chief Executive Officer & Managing Director. The Audit Committee is satisfied that the internal auditors' independence have been maintained as adequate safeguards are in place. All internal auditors have signed the annual declaration that they were and had been independent, objective and in compliance with the Code of Ethics and Conduct of IJM, the Malaysian Institute of Accountants, and the Institute of Internal Auditors in carrying out their duties for the financial year.

AUDIT COMMITTEE REPORT

The Internal Audit function provides to the Board (primarily via the Audit Committee) and to management reasonable assurance on the effectiveness of the Group's systems of internal control and the adequacy of these systems to manage business risks and to safeguard the Group's assets and resources.

The IAD is governed by the Internal Audit Charter and adopts a risk based auditing approach, using the International Professional Practices Framework (IPPF) and it sets out the purpose, functions, scope and responsibilities of the Internal Audit function and how it maintains independence from the first and second line of defence by management of the Group. The four main functions of Internal Audit are to:

- Assess and report on the effectiveness of the design and operation of the framework of controls which enable risks to be assessed and managed;
- Assess and report on the effectiveness of management actions to address deficiencies in the framework of controls;
- Investigate and report on cases of suspected employee fraud and malpractice; and
- Undertake designated consulting services for management provided that they do not threaten the function's independence from management.

The Internal Audit Plan for 2016-2017 which was approved by the Audit Committee in February 2016 reflected the priorities in the Group's 2016-2017 Operational Plan and were prioritised following a risk-based assessment of the business and a review against the Group's risk policies. The reviews carried out covered an extensive sample of controls over all risk types, business units and entities. During the year, the Internal Audit Plan for 2017-2018 was reviewed and approved by the Audit Committee in February 2017.

The IAD evaluated the adequacy and effectiveness of key controls in responding to risks within the organisation's governance, operations and information systems, in terms of:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets; and
- Compliance with relevant laws, regulations and contractual obligations.

All internal control deficiencies identified were reported to the appropriate levels of management. The Audit Committee received quarterly reports from the IAD on audit reviews carried out, management's responses to the findings and progress in addressing identified issues. The management members were made responsible for ensuring that corrective actions on reported control deficiencies were taken within the required timeframes. IAD conducted follow-up audits on key engagements to ensure that the corrective actions were implemented appropriately. In this respect, IAD has added value by enhancing the governance, risk management and control processes within the Group.

The Audit Committee reviewed and approved the IAD's financial budget and human resource requirements to ensure that the function is adequately resourced.

INTERNAL AUDIT ACTIVITIES FOR THE FINANCIAL YEAR

During the financial year, the IAD had completed and reported on 28 audit assignments covering the operations in the estates, mills, head office in Malaysia and those in Indonesia. This includes special audits conducted on the basis of special requests from the Board, Audit Committee, Senior Management or those arising from the Group's Whistle Blowing Programme.

The IAD also plays an active advisory role in the review and improvement of existing internal controls within the Group.

Currently, IAD has implemented the use of audit management and data analytics software (ACL) in efforts to increase the efficiency and effectiveness of the function's audit management process and data analytics capabilities.

IJM is a Corporate Member of The Institute of Internal Auditors Malaysia.

This Audit Committee Report is made in accordance with the resolution of the Board of Directors dated 30 June 2017.