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 and Dato’ Soam Heng Choon.

MEETINGS AND MINUTES

Four (4) meetings were held during the financial year with the attendance of the Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”), 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:

<table>
<thead>
<tr>
<th>Name</th>
<th>No. of Meetings Attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pushpanathan A/L S. A. Kanagarayar</td>
<td>4/4</td>
</tr>
<tr>
<td>Independent Non-Executive Director (Chairman)</td>
<td></td>
</tr>
<tr>
<td>M. Ramachandran A/L V.D. Nair</td>
<td>4/4</td>
</tr>
<tr>
<td>Senior Independent Non-Executive Director</td>
<td></td>
</tr>
<tr>
<td>Dato’ Soam Heng Choon</td>
<td>4/4</td>
</tr>
<tr>
<td>Non-Executive Director</td>
<td></td>
</tr>
</tbody>
</table>

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 of the Board.
AUDIT COMMITTEE REPORT

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 2016. 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 have discharged their functions, duties and responsibilities in accordance with the Audit Committee’s terms of reference.

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 exercised on 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; and
• 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, before proposing that those control weaknesses be rectified and recommendations for improvements be implemented.

3.0 EXTERNAL AUDIT

• Reviewed and endorsed the external auditors’ audit strategy, audit plan and scope of work for the year;
• Exercised oversight over the relationship with the external auditors to ensure that its coverage is focused and that suitable overlap with the work of internal audit is achieved;
• Reviewed the assistance given by the 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;
  • recommendations made by them in their management letters and the adequacy of Management’s responses; and
  • liaison with other auditors of subsidiaries in Indonesia.

• Reviewed and approved the provision of non-audit services by the external auditors that were agreed to prior to their commencement of such work and confirmed as permissible for them to undertake, as provided under the By-Laws of the Malaysian Institute of Accountants. The amount of audit and non-audit fee incurred for the financial year ended 31 March 2016 were as follows:

<table>
<thead>
<tr>
<th>Fee Incurred</th>
<th>Audit Fee RM’000</th>
<th>Non-Audit Fee RM’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Company</td>
<td>151</td>
<td>113</td>
</tr>
<tr>
<td>The Group</td>
<td>537*</td>
<td>151</td>
</tr>
</tbody>
</table>

* includes an amount of RM298,000 paid to other auditors of subsidiaries in Indonesia

The non-audit services rendered included tax compliance and advisory services, as well as the implementation reviews of GST, and accounting software.

• 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 interest 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; and

• 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, amongst others, the quality of service, sufficiency 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 engagement and concurring partners responsible for the Group audit are rotated at least every five (5) financial years.

Following the review of the external auditors’ effectiveness and independence, the Audit Committee is satisfied with the performance and the audit independence of the external auditors. Accordingly, it was recommended to the Board to re-appoint PricewaterhouseCoopers as auditors of the Company as well as the proposed audit fee for approval. A resolution for their re-appointment will be tabled for approval at the forthcoming Annual General Meeting.
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, 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. 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 larger IAD at IJM Corporation Berhad can provide. The IAD reports directly to the Audit Committee on its activities based on the approved annual Internal Audit Plan. The Internal Audit fees charged to the Group for the financial year ended 31 March 2016 was RM160,000 (2015:RM160,000).

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 has been maintained as adequate safeguards are in place. All internal auditors had signed the annual declaration that they were and had been independent, objective and in compliance with the Code of Ethics and Conduct of IJM Corporation Berhad and The Institute of Internal Auditors in carrying out their duties for the financial year.

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 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 defense 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 controls framework which enable risk to be assessed and managed;
- Assess and report on the effectiveness of Management actions to address deficiencies in the controls framework;
- Investigate and report on cases of suspected employee fraud and malpractice, if any; and
- Undertake designated advisory services for Management provided that they do not threaten the function’s actual or perceived independence from Management.

The Internal Audit Plan for 2015-2016 was reviewed and approved by the Audit Committee in February 2015. Planned reviews reflected the priorities in the Group’s 2015-2016 Operational Plan and were prioritised following a risk-based assessment of the business and a review of the Group’s risk policies. The reviews carried out covered an extensive sample of controls over all risk types, business units and entities.
The IAD adopts a risk based auditing approach, prioritizing audit assignments based on the group's business activity, risk management and past audit findings. It 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 response 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.

A range of initiatives are being developed, in particular the proposal for the procurement of audit management and data analytics software, to increase the efficiency and effectiveness of the function’s audit management process and data analytics capabilities. This proposal was presented to and approved by the Audit Committee, for implementation in the financial year ending 31 March 2017.

**INTERNAL AUDIT ACTIVITIES FOR THE FINANCIAL YEAR**

During the financial year, the IAD had completed and reported 28 audit assignments covering the operations in the estates, mills, head office in both Malaysia and Indonesia. The assignments included special audits requested by the Board, Audit Committee or Senior Management, and those which arose from reports pursuant to the Group’s Whistle-Blowing Policy.

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

This Audit Committee Report is made in accordance with the resolution of the Board of Directors dated 14 July 2016.