

Audit Committee Report

The Board presents the Audit Committee Report which provides insights into the manner in which the Audit Committee discharged its functions for the Group in 2013.

COMPOSITION AND ATTENDANCE

The Audit Committee (AC) comprises five members, all of whom are Non-Executive Directors (NEDs), four being Independent NEDs and one a Public Interest Director (PID) who also satisfies the test of independence under the Main Market Listing Requirements (MMLR). This meets the requirements of paragraph 15.09(1)(b) of the MMLR. The AC members and their attendance records are outlined in the Corporate Governance Statement.

The AC Chairman, Tan Sri Datuk Dr. Abdul Samad Haji Alias, is a Fellow of the Institute of Chartered Accountants, Australia, a member of the Malaysian Institute of Accountants, and a member of the Malaysian Institute of Certified Public Accountants. Accordingly, Bursa Malaysia complies with paragraph 15.09(1)(c)(i) of the MMLR.

The Board reviews annually the terms of office of the AC members and assesses the performance of the AC and its members through an annual Board Committee effectiveness evaluation. The Board is satisfied that the AC and its members have been able to discharge their functions, duties and responsibilities in accordance with the Terms of Reference of the AC which are available on Bursa Malaysia's website, thereby supporting the Board in ensuring appropriate Corporate Governance (CG) standards within the Group.

MEETINGS

The AC held five meetings in 2013 without the presence of other Directors and employees, except when their attendance was requested by the AC. The Chief Executive Officer (CEO) was invited to all AC meetings to facilitate direct communication as well as to provide clarification on audit issues and the operations of the Group. The Senior Executive Vice President, Group Internal Audit who is also the Head of Group Internal Audit (GIA) and Departmental Heads of the respective GIA functions were present at all AC meetings to table the respective Internal Audit (IA) reports. The relevant Management of the audit subjects were invited to brief the AC on specific issues arising from the relevant audit reports.

As part of the AC's efforts to ensure the reliability of Bursa Malaysia's quarterly financial statements and compliance with applicable Financial Reporting Standards (FRS), External Auditors were engaged to conduct a limited review of Bursa Malaysia's quarterly financial statements before these were presented to the AC for review and recommendation for the Board's approval and adoption. In this respect, the lead audit engagement partner of the External Auditors responsible for the Group attended four AC meetings in 2013 to present the auditors' report on the annual audited financial statements for 2012, as well as the auditors' review reports on the unaudited quarterly financial statements together with the cumulative quarters for 2013.

During the first meeting between the External Auditors and the AC in 2013, the AC sought the External Auditors' confirmation that they had been given unfettered access to information and co-operation from the Management in the course of audit. In the AC meetings, the External Auditors were invited to raise any matter they considered important for the AC's attention. The AC Chairman obtained confirmation from the External Auditors that the Management had given its full support and unrestricted access to information as required by the External Auditors to perform their duties.

In addition to the meetings held between the AC and the External Auditors during AC meetings where the External Auditors were given opportunities to raise any matters without the presence of Management, the AC members also gave unrestricted access to the External Auditors to contact them at any time should they become aware of incidents or matters in the course of their audits or reviews.

Deliberations during the AC meetings, including the issues tabled and rationale adopted for decisions, were recorded. Minutes of the AC meetings were tabled for confirmation at the following AC meeting and subsequently presented to the Board for notation. In 2013, the AC Chairman presented to the Board the recommendations of the Committee for approval of the annual and quarterly financial statements as well as declaration of dividends. The AC Chairman also conveyed to the Board matters of significant concern as and when raised by the External Auditors or Internal Auditors.

SUMMARY OF ACTIVITIES

The AC's activities during 2013 encompassed the following:

1. Financial Reporting

- a. In overseeing Bursa Malaysia's financial reporting, the AC reviewed the quarterly financial statements for the fourth quarter of 2012 and the annual audited financial statements of 2012 at its meeting on 29 January 2013. The quarterly financial statements for the first, second and third quarters of 2013 which were prepared in compliance with the Malaysian Financial Reporting Standards 134: Interim Financial Reporting, International Accounting Standards 34: Interim Financial Reporting and paragraph 9.22, including Appendix 9B of the MMLR, were reviewed at the AC meetings on 16 April 2013, 16 July 2013 and 21 October 2013 respectively (AC Meetings in 2013). On 27 January 2014, the AC reviewed the quarterly financial statements for the fourth quarter of 2013 and the annual audited financial statements for 2013. The AC's recommendations were presented at the respective Board meetings held subsequently for approval.

- b. To safeguard the integrity of information, the Director, Corporate Services who is also the Chief Financial Officer (CFO) had, on 8 April 2013, 11 July 2013, 10 October 2013 and 22 January 2014, given assurance to the AC that adequate processes and controls were in place for an effective and efficient financial statements close process in the preparation of the quarterly financial statements of 2013, and that appropriate accounting policies had been adopted and applied consistently to give a true and fair view of the state of affairs of the Group.
- c. On 29 January 2013, the CFO presented for the AC's approval the proposed audit and non-audit services to be provided by the External Auditors for 2013 (Annual Plan 2013) in accordance with the Auditor Independence Policy.
- d. On 21 October 2013, the AC reviewed the External Auditors' 2013 Audit Plan outlining their scope of work and proposed fees for the statutory audit and review of the Statement on Internal Control and Risk Management for 2013. The AC further resolved to recommend the proposed fees to the Board for approval.
- e. On 27 January 2014, the CFO presented that an amount of RM220,000 was actually incurred for non-audit fees in 2013, which constituted approximately 43% of the total remuneration of RM518,000 to the External Auditors for 2013. At the same meeting, the CFO also presented for the AC's review the list of services in the Annual Plan 2014.
- f. On 27 January 2014, the performance of the external audit function was reviewed and assessed by the AC. Feedback on the conduct of the external audit was obtained from the Management.

2. External Audit

- a. The AC deliberated upon the External Auditors' report at its meeting on 29 January 2013 with regard to the relevant disclosures in the annual audited financial statements for 2012. The AC also considered suggestions to improve the accounting procedures and internal control measures.
- b. On 29 January 2013, the AC reviewed the list of services in the Annual Plan 2013 which comprised the non-recurring and recurring non-audit services that may be provided by the External Auditors. The non-recurring non-audit services that were expected to be utilised in 2013 were ad-hoc tax advisory services, special audits in connection with the transfer of Bursa Malaysia Securities Berhad - Compensation Fund and Bursa Malaysia Derivatives Berhad - Fidelity Fund to Capital Market Compensation Fund Corporation, as well as goods and services tax implementation. The recurring non-audit services were in respect of tax compliance, scrutineers at Bursa Malaysia's AGM, the annual review of the Statement on Internal Control and Risk Management, and limited reviews of quarterly financial statements. In considering the nature and scope of non-audit fees, the AC was satisfied that they were not likely to create any conflicts of interest, nor impair the independence and objectivity of the External Auditors.
- c. Bursa Malaysia has in place the Auditor Independence Policy which requires the lead and concurring audit engagement partners of Bursa Malaysia Group to be subject to a five-year cooling-off period. Mr. Chan Hooi Lam became the lead audit engagement partner in 2010 and will be rotated in 2015, whilst Ms. Gloria Goh became the concurring audit engagement partner in 2011 and will be rotated in 2016.

In this respect, the AC carries out an annual review of the performance of the External Auditors, including assessment of their independence in the performance of their obligations as External Auditors. For 2013, the AC was satisfied with the External Auditors' technical competency and independence, based on its annual evaluation of their performance, and with the reasonableness of their audit fees. With that, the AC further recommended for the Board's approval the reappointment of the External Auditors for 2013.

The External Auditors provided written assurance on 27 January 2014 to the AC that they were and had been, independent throughout the conduct of the audit engagement for 2013 in accordance with terms of all relevant professional and regulatory requirements.

Being satisfied with the performance of the External Auditors, the AC recommended their reappointment for 2014.

3. Internal Audit

- a. The GIA team conducted the audit activities as planned in the 2013 Audit Plan approved by the AC on 26 November 2012. The Head of GIA and Departmental Heads of the respective GIA functions presented GIA's reports at every AC meeting during the year which reports on the status and progress of IA assignments, including summaries of the audit reports issued, audit recommendations provided by the Internal Auditors and Management's response to those recommendations.

During AC Meetings in 2013, GIA had given assurance to the AC via Representation Letters that there was no material issue or major deficiency noted that posed a high risk to the overall system of internal control over IT maintenance expenses, securities trade fees, information services fees and access fees respectively.

- b. At the meeting on 29 January 2013, the AC deliberated on the results of GIA's 2012 Balanced Scorecard and Key Performance Indicators (KPIs). The GIA's 2013 Balanced Scorecard and KPIs were considered and approved on 16 April 2013.
- c. At the meeting on 16 April 2013, the AC reviewed the results of GIA's Customer Satisfaction Survey for 2012, which included an analysis of IA's strengths and weaknesses and action plans to improve audit services to IA's customers. The results indicated that IA's customers were generally satisfied with the performance of the IA function.

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- d. On 16 April 2013, GIA presented the post-mortem report for the Annual IA Plan of 2012 which provided an overall indication of the adequacy and effectiveness of controls implemented within the Group to mitigate its key risks.
- e. At the meeting on 19 November 2013, the AC considered the adequacy of scope and comprehensive coverage of the Group's activities and approved the IA's Annual Audit Plan for 2014.
- f. On 19 November 2013 and 27 January 2014, the AC reviewed the annual Statement on Internal Control and Risk Management for publication in the 2013 Annual Report.
- g. On 19 November 2013, the AC reviewed the verification of share grants under the Share Grant Plan (SGP) of Bursa Malaysia which comprised two components, namely the Restricted Share Plan (RSP) for employees at Grade E7 and above and the Performance Share Plan (PSP) for key management personnel in addition to their RSP. The AC concurred that the award of shares under the SGP complied with the criteria approved by the Nomination and Remuneration Committee pursuant to Paragraph 8.17(2) of the MMLR, which included the following:
 - i. The award of shares in Bursa Malaysia (Plan Shares) to eligible employees of the Group on 1 July 2013 for the 2013 RSP Grant based on their job grades and performance ratings for 2012;
 - ii. The vesting of Plan Shares for the 2011 and 2012 RSP Grants on 15 July 2013; and
 - iii. The award of Plan Shares to selected executives of the Group on 1 July 2013 for the 2013 PSP Grant based on performance targets for the period 2013 to 2015.

The MRAC, which is a management committee under the Group's Management Governance Framework, reviews reports from the Internal Auditors, External Auditors and the Securities Commission for the purpose of assessing the adequacy and integrity of the system of internal control of the Group. The MRAC held four meetings in 2013.

The IA activities were carried out based on a risk-based audit plan presented to the AC for approval. The establishment of the audit plan took into consideration the Corporate Risk Profile and input from Senior Management and the AC members.

The results of the audits provided in the IA reports were reviewed by the AC. The relevant Management of the specific audit subject were made responsible for ensuring that corrective actions on reported weaknesses were taken within the required timeframe. GIA conducted follow-up audits to ensure that Management's corrective actions were implemented appropriately. In this respect, the IA has added value by improving the control processes within the Group.

All IA activities in 2013 were conducted by the in-house audit team. No area of the IA function was outsourced. The total costs incurred by GIA in discharging its functions and responsibilities in 2013 amounted to RM2,780,624 as compared to RM2,753,614 in 2012.

INTERNAL AUDIT FUNCTION

The purpose of the IA function is to provide the Board, through the AC, with reasonable assurance of the effectiveness of the risk management, control and governance processes in the Group. GIA was led by the Head of GIA, which reported functionally to the AC and administratively to the CEO during the financial year 2013.

The GIA comprises four departments i.e. Strategic and Operations Audit, Compliance and Project Audit, IT Audit and Audit Strategic Planning. To ensure that the responsibilities of GIA are fully discharged, the AC reviews the adequacy of the scope, functions and resources of the IA function as well as the competency of the Internal Auditors.

The Internal Auditors also highlighted to the Management Risk and Audit Committee (MRAC) the audit findings which required follow-up action by Management as well as outstanding audit issues which required corrective action to ensure an adequate and effective internal control system within the Group.