

AUDIT COMMITTEE REPORT

The Board of Directors of Bursa Malaysia presents the Audit Committee Report which provides insights into the manner in which the Audit Committee discharged its functions for the Group in 2014.

COMPOSITION AND ATTENDANCE

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

The AC Chairman, Mr. Pushpanathan a/l S.A. Kanagarayar, is a member of the Institute of Chartered Accountants of Scotland, the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants. Accordingly, Bursa Malaysia complies with paragraph 15.09(1)(c)(i) of MMLR. Mr. Pushpanathan a/l S.A. Kanagarayar was appointed Independent Non-Executive Director and AC Chairman on 23 June 2014, replacing Tan Sri Datuk Dr. Abdul Samad bin Haji Alias who retired as Independent Non-Executive Director at Bursa Malaysia's 37th Annual General Meeting (AGM) and ceased as AC Chairman on 27 March 2014. Prior to the appointment of Mr. Pushpanathan, an AC meeting held on 14 April 2014 was chaired by Datuk Dr. Syed Muhamad bin Syed Abdul Kadir.

The Board reviews 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 discharged their functions, duties and responsibilities in accordance with the AC's Terms of Reference, supporting the Board in ensuring the Group upholds appropriate CG standards.

MEETINGS

The AC held five meetings in 2014 without the presence of other Directors and employees, except when the AC requested their attendance. 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 Group's operations. The Senior Executive Vice President, Group Internal Audit (GIA), who is also the Head of GIA, and departmental heads of the respective GIA functions attended all AC meetings to table the respective Internal Audit (IA) reports. The relevant responsible Management members of the auditees were invited to brief the AC on specific issues arising from 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, the 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 attended four AC meetings in 2014 to present the auditors' report on the annual audited financial statements for 2013, as well as the auditors' review reports on the unaudited quarterly financial statements together with that of the cumulative quarters for 2014.

During the first meeting in 2014 between the External Auditors and the AC, the AC obtained the External Auditors' confirmation that they were provided unfettered access to information and co-operation from the Management throughout the course of the audit. The External Auditors were also invited to raise any matter that they considered was important for the AC's attention.

The AC had two private meetings with the External Auditors in 2014 without the presence of the CEO, Management and Internal Auditors. At these meetings, the AC enquired about Management's co-operation with the External Auditors, their sharing of information and the proficiency and adequacy of resources in financial reporting functions, particularly in relation to the applicable Financial Reporting Standards. The AC Chairman also permitted the External Auditors to contact him at any time that they became aware of incidents or matters in the course of their audits or reviews that needed his attention or that of the AC or Board.

Minutes of each AC meeting were recorded and tabled for confirmation at the following AC meeting and subsequently presented to the Board for notation. In 2014, the AC Chairman presented the Board with the Committee's recommendations to approve 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 2014 comprised 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 2013 and the annual audited financial statements of 2013 at its meeting on 27 January 2014.

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The quarterly financial statements for the first, second and third quarters of 2014, which were prepared in compliance with the Malaysian Financial Reporting Standard (MFRS) 134 *Interim Financial Reporting*, International Accounting Standard 34 *Interim Financial Reporting* and paragraph 9.22, including Appendix 9B of the MMLR, were reviewed at the AC meetings on 14 April 2014, 14 July 2014 and 16 October 2014 respectively.

On 26 January 2015, the AC reviewed the quarterly financial statements for the fourth quarter of 2014 and the annual audited financial statements for 2014.

The AC's recommendations were presented for approval at the subsequent Board meetings.

- b. To safeguard the integrity of information, the Director of Corporate Services who is also the Chief Financial Officer (CFO) had, on 10 April 2014, 10 July 2014, 10 October 2014 and 21 January 2015, given assurance to the AC that:
- Appropriate accounting policies had been adopted and applied consistently;
 - The going concern basis applied in the Annual Financial Statements and Condensed Consolidated Financial Statements was appropriate;
 - Prudent judgements and reasonable estimates had been made in accordance with the requirements set out in the Malaysian Financial Reporting Standards (MFRSs);
 - Adequate processes and controls were in place for effective and efficient financial reporting and disclosures under the MFRSs, International Financial Reporting Standards and MMLR; and
 - The Annual Financial Statements and Condensed Consolidated Financial Statements did not contain material misstatements and gave a true and fair view of the financial position of the Group and the respective companies within the Group for 2014.
- c. On 27 January 2014, the previous CFO sought the AC's approval for the proposed audit and non-audit services to be provided by the External Auditors for 2014 (Annual Plan 2014) in accordance with the Auditor Independence Policy.

2. External Audit

- a. The AC deliberated the External Auditors' report at its meeting on 27 January 2014 with regard to the relevant disclosures in the annual audited financial statements for 2013. The AC also considered suggestions to improve the accounting procedures and internal control measures.
- b. On 27 January 2014, the AC reviewed the list of services in the Annual Plan 2014 which comprised the audit services as well as 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 2014 were ad-hoc accounting and tax advisory services including that on Goods and Services Tax (GST) implementation. The recurring non-audit services were in respect of tax compliance,

services as 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's Auditor Independence Policy states that the lead audit engagement and concurring partners of Bursa Malaysia Group be subject to a five-year rotation with a five-year cooling-off period. Mr. Chan Hooi Lam became the lead audit engagement partner in 2010 and will be rotated in 2015, while Mr. Abraham Verghese became the audit concurring partner on 1 October 2014, replacing Ms. Gloria Goh who retired as a partner on 30 September 2014.

In this respect, the AC carries out an annual review of the performance of the External Auditors, including assessment of their independence in performing their obligations. Based on the annual evaluation of their performance and audit fees, the AC was satisfied with the External Auditors' technical competency and independence for 2014. With that, the AC further recommended to the Board the reappointment of the External Auditors for 2014.

- d. On 16 October 2014, the AC reviewed the External Auditors' 2014 Audit Plan outlining their scope of work and proposed fees for the statutory audit and review of the Statement of Internal Control and Risk Management for 2014. The AC further resolved to recommend the proposed fees to the Board for approval.
- e. On 26 January 2015, the CFO presented that non-audit fees incurred in 2014 amounted to RM289,100, constituting approximately 49% of the total remuneration of RM587,100 to the External Auditors for the 2014 financial year. At the same meeting, the CFO also presented for the AC's review the list of services in the Annual Plan 2015.
- f. On 26 January 2015, the AC undertook an annual assessment of the suitability and independence of the External Auditors in accordance with the Auditor Independence Policy of the Group which was adopted in 2006. In its assessment, the AC considered several factors including the adequacy of experience and resources of the firm and the professional staff assigned to the audit, and the level of non-audit services to be rendered by the External Auditors to the Group for the 2015 financial year.

In accordance with the Auditor Independence Policy which requires the lead audit partner to be subject to a five-year rotation with a five-year cooling-off period, the AC conducted a further review on EY and assessed the performance of the external audit function, to determine whether to maintain the incumbent audit firm or to appoint a new one. Feedback on the conduct of the external audit was obtained from the Management for assessing the quality of services rendered to the Group.

The External Auditors provided written assurance on 26 January 2015 to the AC that in accordance with the terms of all relevant professional and regulatory requirements, they had been independent throughout the audit engagement for 2014.

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Being satisfied with EY's performance, technical competency and audit independence as well as fulfilment of the criteria as set out in the Auditor Independence Policy, the AC recommended to the Board for approval of the appointment of EY as External Auditors for the financial year ending 31 December 2015, with the rotation of the audit engagement partner.

3. Internal Audit

- a. The GIA team conducted the audit activities as per the 2014 Risk-Based Audit Plan approved by the AC on 19 November 2013. The Head of GIA and departmental heads of the respective GIA functions presented the GIA's reports at every AC meeting during the year. The reports contain:
- The status and progress of IA assignments including summaries of the audit reports issued;
 - Audit recommendations provided by the Internal Auditors; and
 - Management's responses to those recommendations.
- b. During AC Meetings in 2014, GIA gave 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 derivatives clearing fees, brokers service fees, securities clearing fees and listing fees.
- c. The 2014 Risk-Based Audit Plan is reviewed on a half-yearly basis or as required to reflect the changing risk landscape of the organisation and industry. A total of 46 audit engagements were completed in 2014, categorised as follows:
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- | Category | Percentage |
|----------------------------------|------------|
| Strategic and Operational Audits | 33% |
| IT Audits | 26% |
| Projects Assurance Reviews | 9% |
| Advisory Services | 2% |
| Compliance | 30% |
- i. The nature of the categories of engagements was as follows:
- Strategic and Operational Audits – Audits of core operations and support services within Bursa Malaysia;
 - IT Audits – Information Security/Information Technology related audits;
 - Projects Assurance Reviews – System Readiness Reviews, Implementation Reviews or Post Implementation Reviews;
 - Advisory Services – Consulting services as agreed with Management to add value and improve Bursa Malaysia's governance, risk management and control processes; and
 - Compliance – Audits in relation to internal policies and procedures, and external rules and regulations.
- ii. GIA's scope of audit engagements is aligned with Bursa Malaysia's 'Top 10 risks' in the Corporate Risk Profile 2014 and its key strategic initiatives. The identified key audit areas/portfolios in 2014 covered the following:
- Islamic and Alternative Markets
 - Securities Market
 - Regulation
 - Market Operations
 - Review on critical systems and their disaster recovery process – Trading, Depository and Clearing
 - IT Security
 - Functional – Human Resources, Corporate Services, and Compliance
- d. Effective January 2014, GIA incorporated a quantitative assessment to assign audit ratings for audit reports. The methodology is based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO)'s Internal Control framework to provide a more objective assignment of audit ratings. The strengths of the controls are assessed against the criteria set out in the five inter-related control elements of the COSO model.
- e. In the effort to establish rapport and partnership, GIA continuously engages with ASEAN and Asia Pacific regional exchanges. These engagements are undertaken for benchmarking and knowledge-sharing in governance, risk management and controls. As part of the initiative, a knowledge-sharing session was conducted in 2014 with the stock exchange of a developing country in ASEAN.
- f. At the meeting on 27 January 2014, the AC deliberated the GIA's 2013 Balanced Scorecard and Key Performance Indicators (KPIs) which recorded 'Exceed Target' from the four categories of KPI measurement; while the other three categories were 'Minimum-on-Target', 'Target' and 'Stretch'. The GIA's 2014 Balanced Scorecard and KPIs were considered and approved on 14 April 2014.
- g. At the meeting on 14 April 2014, the AC reviewed the results of GIA's Customer Satisfaction Survey for 2013, which included an analysis of IA's strengths, weaknesses and action plans to improve audit services to GIA's customers. The results indicated that GIA's customers were generally satisfied with the performance of the IA function.
- h. On 14 April 2014, GIA presented the Audit Activities Summary for the 2013 audits which indicated the adequacy and effectiveness of controls implemented within the Group to mitigate its key risks.
- i. During the same meeting, the AC deliberated and approved GIA's proposals to enhance the Audit Charter in line with the current standards for risk-based Professional Practice of Internal Auditing and to reflect the changes to the IA practice on auditing.

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j. The revised Post-Implementation Review (PIR) Framework was presented to the AC for approval on 14 April 2014. The main purposes of the PIR are to assess the performance and internal control of key projects undertaken by Bursa Malaysia and include:

- Ascertaining the achievement of the projects' intended objectives;
- Reviewing the performance of project management activities;
- Capturing learning points for future improvements; and
- Examining the outputs delivered against the actual needs of the projects.

k. On 14 July 2014, GIA presented to the AC the half-yearly updates on its activities comprising the progress of the 2014 Annual Audit Plan, ad-hoc assignments and project assurance reviews, GIA manpower planning, GIA's key initiatives for 2014, revision of GIA's organisation chart and its Auditors' Profile.

l. A quality assessment review, required at least once every five years, was carried out on GIA by an external qualified independent assessor, namely the Institute of Internal Auditors Malaysia (IIAM). The IIAM presented their External Quality Assessment Report to the AC on 16 October 2014, showing that GIA achieved the 'Generally Conforms' rating for the key elements of the International Professional Practice Framework promulgated by the global Institute of Internal Auditors (IIA), out of the three ratings which are 'Generally Conforms', 'Partially Conforms' and 'Does Not Conform'.

m. At the same meeting, the AC deliberated and approved the GIA's 2014-2016 Strategic Plan, which details the expected value drivers to be delivered for the three years, with a focus on four key strategic areas. International, professionally-recognised benchmarks i.e. IIA's IA Capability Model and the IIA Global Competency Frameworks were also used as references in preparing the GIA's 2014-2016 Strategic Plan.

n. At the meeting on 20 November 2014, the AC considered the adequacy of scope and coverage of the Group's activities and approved the GIA's Annual Audit Plan for 2015.

o. On 20 November 2014 and 26 January 2015, the AC reviewed the annual Statement on Internal Control and Risk Management for publication in the 2014 Annual Report.

p. The AC on 20 November 2014 reviewed the verification of share grants under Bursa Malaysia's Share Grant Plan (SGP), which comprises two components: 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:

- The award of Bursa Malaysia Plan Shares to eligible employees of the Group on 1 July 2014 for the 2014 RSP Grant based on their job grades and performance ratings for 2013;
- The vesting of Plan Shares for the 2011, 2012 and 2013 RSP Grants on 16 July 2014; and

- The award of Plan Shares to selected executives of the Group on 1 July 2014 for the 2014 PSP Grant based on performance targets for the period 2014 to 2016.

INTERNAL AUDIT FUNCTION

GIA's vision is to become a provider of leading internal audit, risk management and governance services as well as a strategic business partner to the organisation.

Its mission is to provide independent, objective assurance and consulting services designed to add value and improve Bursa Malaysia's operations. By creating value through its services, GIA can become a partner to business and actively facilitate transformational change.

The IA functions include providing the Board, through the AC, reasonable assurance of the effectiveness of the Group's risk management, control and governance processes. GIA, which reported functionally to the AC and administratively to the CEO during the financial year 2014, was led by the Head of GIA.

The GIA comprises four departments: Strategic and Operational 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 the audit findings which required follow-up actions by Management as well as outstanding audit issues which required corrective actions to ensure an adequate and effective internal control system within the Group.

The IA activities were carried out based on a risk-based audit plan approved by the AC. The audit plan took into consideration the Corporate and Divisional Risk Profiles and input from Senior Management and the AC members. Further, GIA engaged with the Heads of the Strategic Business Units/Support Functional Units in the development of the 2014 risk-based audit plan.

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

The GIA also leverages on reports received annually from the Chicago Mercantile Exchange Group's (CME) Independent Service Auditor's Report (McGladery LLP) - Service Organisation Control 1, on Controls Placed in Operation and Tests of Operating Effectiveness relevant to the CME Globex Trading, CME Clearport and CME Clearing Services. These reports are received due to the listing of all of Bursa Malaysia Derivatives' (BMD) products on CME's Globex Trading Platform. The CME's auditors examine and express their opinion on CME's description of its trade matching and clearing services system for processing transactions for user entities and the suitability of the design and operating effectiveness of controls in achieving the related control objectives. GIA communicates with CME's auditor for further information if necessary.

The total costs incurred by GIA in discharging its functions and responsibilities in 2014 amounted to RM2,798,842 against RM2,780,624 in 2013.