

**AUDIT COMMITTEE INSTITUTE ROUNDTABLE ON “BUILDING AN EFFECTIVE
FRAMEWORK FOR THE AUDIT COMMITTEE”**

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A very good morning

Mr. Quah Poh Keat, Senior Partner, KPMG

Mr. David Lim, Chairman of ACI Malaysia and KPMG Partner

Tan Sri -Tan Sri, Datuk-Datuk

Distinguished guests

Ladies and gentlemen.

I would like to thank the Audit Committee Institute Malaysia for inviting me to speak today. I am also very glad to be a part of this roundtable discussion which seeks to continuously enhance the quality and best practices of audit committees. The issue of enhancing corporate governance has occupied much of our thoughts recently and continues to be an important one within corporate and regulatory circles, both domestic and international. It is clearly an area to which Bursa Malaysia, and indeed all parties concerned in restoring investor confidence, are giving significant emphasis.

Maintaining investor confidence and trust has become increasingly important in today's global business environment. In fact, accurate, reliable and timely financial reporting is the lifeblood of capital markets. Investors need accurate and reliable financial information to make informed investment decisions. Investor confidence in the reliability of the financial information is also fundamental to the liquidity and vibrancy of the markets. If a company fails to provide meaningful disclosure to investors about where it has been, where it is and where it is going, a damaging pattern ensues. The bond between shareholders and the company is shaken; investors grow anxious; prices fluctuate; and the trust that is the bedrock of the capital markets is severely tested.

Whilst measures to enhance corporate governance are primarily aimed at directors, the audit committee fraternity is another group that is of particular importance. It is evident that the audit committee is a pivotal contributor towards good corporate governance. It is key to ensuring the integrity of published financial statements on which investors rely, and which are central to the efficiency of our capital markets.

Audit Committee as Key Element of Efficient and Reliable Capital Markets

An audit committee serves as a crucial bridge in the communication network between the internal and external auditor, and the board of directors. The existence of an audit committee in a company provides a critical overview of the company's financial reporting and auditing process.

The battle for financial statement integrity and reliability depends on balancing the pressures of multiple stakeholders, including management, regulators, investors and the public interest. The audit committee plays a critical role in serving as a check and balance on a company's financial reporting system. Also, it provides a forum separate from management in which auditors and other interested parties can candidly deliberate concerns. By effectively carrying out its functions and responsibilities, the audit committee helps to ensure that management properly develops and adheres to a sound system of internal controls, procedures are in place to objectively assess management's practices and internal controls, and that the external auditors, through their own review, objectively assess the company's financial reporting practices.

When I think about audit committee effectiveness, I believe there are several key qualities to focus on. Firstly, the audit committee must evaluate the competence and independence of the external auditors. And more particularly, of the partner who is leading the effort. In this regard, audit committee members need to probe to find out the nature and extent of issues to which management and the auditors give considerable attention.

Second, we should not forget the importance of internal control and the internal audit function. The internal control structure and the internal audit team that tests and reinforces that structure, is crucial to the success of a company in stemming fraud and abuse, and in

the preparation of accurate financial statements. As such, the importance of the audit committees' understanding of the companies' internal control structures and their assessment of internal audit's effectiveness is crucial in ensuring this important link in the chain is solid.

Next, the audit committee must be given direct, independent access to management, internal audit, and external auditors. The audit committee must be able to communicate in confidence with these three groups independently of each other.

The final point that I would like to make is the importance of time. Audit committee members must make the time, and take the time, to achieve an adequate understanding of what the company's financials represent, to have enough time to consult with outside counsel and experts if necessary, to ask the tough and incisive questions, and to obtain answers that make sense.

Ladies and gentlemen, seeing just how critical the role of the audit committee is, the following factors must also be taken into consideration to ensure the effective implementation of their role:

- Doing the right things
- Having the right people
- Managing critical relationships
- Striving for continuous improvement

Bursa Malaysia as a Supportive Regulator

In supporting the commitment and the work of audit committees, Bursa Malaysia acts as a regulator with the key objectives of balancing the requirements for regulations with business efficacy.

The ongoing contribution of Bursa Malaysia to this effort was encapsulated in the recommendations made in the establishment of the Malaysian Code of Corporate Governance launched in 2000 and the revamping of the Listing Requirements, or LR in short, in 2001. Chapter 15 of Bursa Malaysia Securities Berhad's listing requirements, for example, devotes 12 out of 27 paragraphs to rules governing audit committees of listed companies. These rules cover amongst others, audit committee responsibilities, composition, terms of reference, audit committee rights and reporting requirements, including reporting of breaches of listing requirements to the Exchange.

The LR outlines specific improvements to facilitate the effectiveness of the audit committee. While previously, the audit committee was charged principally with the review of the financial statements and the audit plan, audit report and the review of related part transactions, the role has been expanded to include review of adequacy of internal audit functions and any conflict of interest situations.

Another improvement is to specify the rights of directors and the audit committee. Directors generally need to know the intricate details of the business as their role is not to manage but to lead. In order to do that effectively, they must have access to accurate and timely information and advice. This is all the more important in the context of independent directors who do not readily have access to company information. To ensure that their right to information is not impeded, such right has been specifically provided in the LR. Failure to provide such information that is necessary for the performance of the director's duties would be a breach of the LR.

Bursa Malaysia also advocates continuing education for directors. Yet another improvement in the LR outlines the mandatory accreditation and training programmes for directors on an annual basis to ensure that they have formal support. Besides being a source of assistance and support for management, they should be well informed and knowledgeable directors. The training will help them greatly in understanding their roles and responsibilities. Furthermore, the training in the form of induction programmes by the company for the independent directors are especially beneficial to enable them to familiarize themselves with the company itself, its business and plans.

Bursa Malaysia is seeing more adherence in disclosures by companies, specifically on the disclosure of individual directors' remuneration as prescribed by the Malaysian Code on Corporate Governance. Currently, disclosure is largely in the form of remuneration bandwidths of RM50,000 and in categories of remuneration segregating executive and non executive directors in line with the Listing Requirements.

In propagating greater disclosure in relation to directors' remuneration, Bursa Malaysia as a PLC itself had disclosed the exact remuneration of all its directors in its 2006 Annual Report. This was done at the recommendation of the Audit Committee members.

Conclusion

Ladies and gentlemen, Bursa Malaysia will continue to strive for effective regulations and enforcement. Without these, there would not be investor confidence. Without investor confidence, there would not be a vibrant and dynamic market for Bursa Malaysia to serve the capital needs of the economy.

Without a doubt, today's roundtable is a team effort. With increasing contribution from industry and market participants similar to that of KPMG and the audience today, listed issuers will continue to improve compliance standards and best practices.

To everyone who is here today, thank you for your attention and have a fruitful session ahead.

Thank you.