

audit committee report



From left to right

Y.Bhg. Tan Sri Saw Huat Lye
Y.Bhg. Dato' Jaffar bin Ahmad Indot
Y.Bhg. Dato' (Dr.) Yahya bin Ismail
Mr. Thomas Michael Taylor

Terms of Reference

Constitution

The Shell Refining Company (Federation of Malaya) Berhad Audit Committee was established by the Board of Directors on 22nd September 1993 to:

- Assist in discharging the Board's responsibilities relating to the Company's management of internal controls, accounting policies and financial reporting;
- Provide by way of regular meetings, a line of communication between the Board and the Company's internal and external auditors.

Membership

The Company's Audit Committee is appointed by the Board and consists of four members, of whom three (i.e. a majority) are Independent Non-Executive Directors to comply fully with paragraph 15.10 of the Bursa Malaysia Securities Berhad Listing Requirements. The Chairman of the Audit Committee is one of the appointed Independent Non-Executive Directors. One of the Directors is an accountant who has more than three years working experience and is a member of one of the Associations of Accountant specified in Part II of the 1st Schedule of the Accountants Act, 1967.

The Audit Committee meets at least four times per year, always preceding the meetings of the Board of Directors.

Authority

The Audit Committee is authorised by the Board to investigate any activity in discharging its duties and responsibilities within its terms of reference and shall have unrestricted access to information it requires from any employee, and all employees are directed to co-operate with any request made by the Audit Committee.

The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise whenever it deems necessary.

Quorum and Frequency of Meeting

The quorum for Audit Committee meetings shall be the majority of Non-Executive Independent Directors present. Meetings shall be held at least four times each calendar year.

The Secretary of the Audit Committee is the Company's Internal Audit Manager. The minutes of each meeting are distributed to each member of the Committee and the Board. The Chairman of the Audit Committee reports on each meeting to the full Board at its subsequent meeting.

The Managing Director and the Finance Manager normally attend these meetings but do not have any voting rights. In addition, the External Auditors and any other appropriate persons may also be invited to attend these meetings. The Chairman of the Audit Committee and any Independent Director may meet with the External Auditors to discuss the external audit findings without any non-independent Board member present.

Duties

In discharging its duties and responsibilities, the Audit Committee shall perform, and where appropriate, report to the Board on the following:

a) Risk Management & Internal Control

- Consider the business's principal risks and evaluate the effectiveness of the process used to identify, assess and mitigate them

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- Evaluate the design and operating effectiveness of the internal control system for managing the business's principal risks, taking into consideration:
 - The results of internal audits and other assurance activities
 - Business Control Incidents
 - Business results, key performance indicators and the degree to which the business has achieved its objectives
- Consider whether appropriate and timely actions are taken to identify and address material failings or weaknesses in internal controls

b) External Audit

- Recommend to the Board the appointment of the External Auditors and the audit fee thereof
- Make appropriate recommendations to the Board on matters of resignation or dismissal of the External Auditors
- Review and discuss the nature and scope of the external audit strategy and plan
- Review and discuss issues arising from External Auditors' interim and final audit letters to Management and the Management's responses and External Auditor's evaluation of the system of internal control
- Discuss problems and reservations arising from the interim and final external audits, and any matter the External Auditor may wish to discuss (in the absence of Management, where necessary)

c) Internal Audit

- Review the scope, function, resources and authority of the Internal Audit function in carrying out its work
- Review the risk-based Internal Audit Plans and Programmes
- Ensure co-ordination between the Internal and External Auditors
- Review the major findings reported by Internal Audit and follow up on Management's implementation of the recommended actions
- Assess performance of services provided by the Internal Audit function
- Recommend to the Board to adopt and declare the Directors' Statement of Internal Control and any changes to the said Statement

d) Financial Reporting

Review the quarterly, half-yearly and annual financial statements before submission to the Board and scrutinise and evaluate:

- Any changes in accounting policies and practices
- Compliance with prevailing accounting standards
- Compliance with statutory and regulatory disclosure requirements
- Any significant adjustments resulting from audits
- Major judgmental areas (e.g. material contingent liabilities)
- The ongoing key assumptions, which underpin the Management's business targets

e) Related Party Transactions

- Approve all Related Party Transaction disclosures and review any conflict of interest situation that may arise within the Company including any transaction, procedure or course of conduct that raises questions on Management integrity

f) Other Matters

- Consider other issues, as proposed by the Board from time to time

Membership and Meetings

Four meetings were held during the year 2004. The records of attendance are as follows:

	17 Feb 2004	11 May 2004	16 Aug 2004	22 Nov 2004
Dato' Jaffar bin Ahmad Indot	Present	Present	Present	Present
Tan Sri Saw Huat Lye	Present	Present	Present	–
Dato' (Dr.) Yahya bin Ismail	Present	Present	Present	Present
Lim Tau Kien (Resigned with effect from 6th September 2004)	Present	Present	Present	–
Paulus Albertus Maria Gerla (Appointed with effect from 16th August 2004 and resigned with effect from 30 November 2004)	–	–	Present	–
Thomas Michael Taylor (Appointed with effect from 22nd November 2004)	–	–	–	Present
Shahul Hamid Mohd Ismail (Resigned with effect from 30th Jun 2004)	Present	Present	–	–

Dato' Jaffar bin Ahmad Indot was the Chairman of the Audit Committee. The Company's Managing Director, Finance Manager, Internal Audit Manager and the External Auditors (as and when required) were in attendance at each of these meetings (except on 22nd November 2004 when the Internal Audit Manager was absent with apologies). The Chairman of the Audit Committee met the External Auditors on 23rd February 2005 to discuss the external audit findings without any Non-Independent Directors present.

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Highlights of Activities

Nine internal audits/reviews were conducted in 2004 on different business processes and regulatory compliance by the Company as follows:

Name of Audit/ Review	Period Conducted
ISO 14001 Surveillance audit	Quarter 2, 2004
OHSAS 18001 Re-certification audit	Quarter 2, 2004
Health, Safety, Security & Environment management systems audit	Quarter 2, 2004
Focused Asset Integrity Review (FAIR)	Quarter 2, 2004
Aviation Product Quality audit	Quarter 2, 2004
IT Business Continuity Plan/ Disaster Recovery Plan audit	Quarter 3, 2004
ISO 17025 Surveillance audit	Quarter 4, 2004
Alliance Contract Post Implementation Review	Quarter 4, 2004
Related Party Transaction audit	Quarter 4, 2004

Key issues including Management responses and the closure of audit recommendations, were highlighted to the Audit Committee. Internal Audit/Assurance Plan for 2004 was reviewed and approved for execution together with the resources for the audits.

The 2004 External Auditors Report on Examination was reviewed and the issues raised and the Management's responses were considered and endorsed. The External Auditors presented the nature, scope and their approach to future audits for the Audit Committee's consideration and approval.

The Audit Committee reviewed the quarterly and year-end financial results before they were presented to the Board of Directors. The review was to ensure compliance with:

- Provisions of the Companies Act, 1965;
- Listing Requirements of Bursa Malaysia Securities Berhad;
- Applicable approved accounting standards; and
- Other legal and regulatory requirements.

The Audit Committee has adopted the Shell Group's Risk and Internal Control Policy to safeguard shareholder's investment and the Company's assets. The Assurance Plan was updated and the principal risks to the Company in achieving its business objectives were used to reconfirm the Audit and Assurance Plan of the Company. The Assurance Plan is in place to manage all the significant risks identified.

Internal Control Function

The Company outsourced the Internal Audit Function to its affiliate company, Shell Malaysia Trading Sdn Bhd, via a Service Level Agreement.

The Company's Internal Audit Manager reports to the Audit Committee and assists in monitoring and updating risks and adequacy of the internal control system. The Internal Audit function assists Management to identify, evaluate and update significant risks and develop risk-based audit plans for approval by the Audit Committee. Its role is to provide independent assessment and reasonable assurance that the systems of internal controls are adequate and effective.