

# BOARD AUDIT COMMITTEE REPORT



1. **Dato' Zainal Abidin bin Putih**  
Chairman  
Senior Independent  
Non-Executive Director



2. **Tan Sri Dato' Hari Narayanan a/I Govindasamy**  
Independent  
Non-Executive Director



3. **Dato' Abd Manaf bin Hashim**  
Independent  
Non-Executive Director



4. **Datuk Chung Hon Cheong**  
Independent  
Non-Executive Director

The Board Audit Committee (BAC) was established on 9 December 1990 by the Board of Directors to assist the Directors to carry out their responsibilities. The BAC is guided by its Terms of Reference which are set out on pages 134 to 137 of the Annual Report.



## MEMBERSHIP AND MEETINGS

BAC members and details of their attendance at BAC meetings held during the financial year are as follows:

No.	Name	Status of Directorship	Independent	No. of Meetings Attended
1.	<b>Dato' Zainal Abidin bin Putih</b> <i>Chairman</i>	Non-Executive Director (Senior Independent)	Yes	14/14
2.	<b>Tan Sri Dato' Hari Narayanan a/I Govindasamy</b> <i>Member</i>	Non-Executive Director	Yes	13/14
3.	<b>Dato' Abd Manaf bin Hashim</b> <i>Member</i>	Non-Executive Director	Yes	13/14
4.	<b>Datuk Chung Hon Cheong</b> <i>Member</i>	Non-Executive Director	Yes	14/14

## BOARD AUDIT COMMITTEE REPORT

TNB's BAC consists of four members, all of whom are Non-Executive Directors. Dato' Zainal Abidin bin Putih and Tan Sri Dato' Hari Narayanan a/l Govindasamy have exceeded the limit of tenure of Independent Directors (cumulative of nine years) as stipulated by the Malaysian Code on Corporate Governance 2012. Dato' Zainal Abidin will seek approval to remain as Independent Director from TNB's shareholders at the Annual General Meeting to be held in December 2013. Whereas Tan Sri Dato' Hari Narayanan has expressed his intention not to seek re-election and will retain office until the close of the 23<sup>rd</sup> AGM.

While the BAC Terms of Reference requires the Committee to meet six times annually, they met 14 times during the financial year. The Chief Internal Auditor and Company Secretary, who is also the secretary to the BAC, attended the meetings. The President/Chief Executive Officer and other officers were invited to the meetings to deliberate on matters within their purview.

After each meeting, the BAC Chairman submits a report on matters deliberated to the Board of Directors for their information and attention. Matters reserved for the Board's approval are tabled at TNB Board meetings. Action sheets are issued by the Company Secretary on the decisions made and actions required. These are then circulated to Management for their action.

### SUMMARY OF ACTIVITIES OF THE BOARD AUDIT COMMITTEE

BAC's principal activities during the financial year are as summarised below:

#### Risk Management

- Reviewed the TNB Strategic Risk Reports, TNB Risk Assessment Reports and activities undertaken by the Enterprise Wide Risk Management Department to promote and improve risk management awareness and processes.
- Recommended the set-up of a Board Risk Management Committee and appointment of a Chief Risk Officer.

#### Internal Audit

- Reviewed and approved Group Internal Audit (GIA)'s structure, budget and annual audit plan to ensure adequacy of resources, competencies and coverage of auditable entities with significant and high risks.
- Reviewed and approved GIA's revised Internal Audit Charter.
- Reviewed internal audit reports issued by GIA and external parties on the effectiveness and adequacy of governance, risk management, operational and compliance processes.
- Reviewed the adequacy and effectiveness of corrective actions taken by Management on all significant matters raised.
- Deliberated the results of ad-hoc investigations and confirmed that appropriate actions were taken to correct the weaknesses.
- Reviewed and approved the appointment of consultants for co-sourced technical audits.
- Approved the procurement and award of the Management & Engineering Audit 2012 to external consultants.
- Assessed the Group Internal Audit Department's performance.
- Reviewed the Key Performance Indicators achieved by division heads in completing corrective actions.

#### External Audit

- Reviewed and approved the external auditor's audit plan and the scope for the annual audit.
- Deliberated and reported the results of the annual audit to the Board of Directors.
- Assessed the performance of the external auditors and recommended their appointment and remuneration to the Board of Directors.
- Met with the external auditors without the presence of Management to discuss matters that they may wish to present.



## Financial Results

- Reviewed the quarterly and annual financial statements of the Company and Group, including announcements, and recommended them to the Board for approval.
- Reviewed the Internal Control Memorandum (ICM) & Significant Accounting Issues (SAI) reported by the external auditor.

## Related Party Transactions

- Reviewed the system for identifying, monitoring and disclosing related party transactions for TNB and its subsidiaries.

## Annual Reporting

- Reviewed and recommended the Statement on Risk Management & Internal Control, Board Audit Committee Report, and Statement on Internal Audit Function.

## Others

- Reviewed and approved the allocation of options granted under the Employees' Share Option Scheme (ESOS) during the financial year against the provisions set out under the Company's Scheme.
- Reviewed the implementation of the Malaysian Financial Reporting Standards (MFRS).
- Reviewed the customisation and realignment of policies and procedures for TNB's subsidiaries.
- Reviewed the restructuring of Malaysian Electricity Supply Industry (MESI) reports as proposed by the government and assessed their potential impact on TNB.
- Deliberated on TNB's business expansion and staffing requirements for overseas projects.
- Deliberated on the readiness assessment in implementing the Malaysian Code on Corporate Governance 2012.
- Reviewed the guidelines for preparing the Statement On Risk Management & Internal Control issued on 31 December 2012.
- Reviewed TNB's Whistleblowing Procedures.

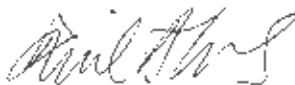
## GROUP INTERNAL AUDIT

BAC is assisted by the Group Internal Audit (GIA) Department in discharging its duties and responsibilities. GIA is independent of operations and is primarily responsible for providing assurance to the BAC on the effectiveness of governance, risk management and internal control processes within the Company.

GIA uses a risk-based approach and a weightage system to determine the priorities of the internal audit activities, consistent with the Group's strategies. An Audit Management System (Teammate) is used to enhance the effectiveness and efficiency of the audit process. GIA also uses Computerised Audit Tools (IDEA) to improve data analytics and to monitor trends thus identify anomalies, exceptions or unexplained patterns that may indicate fraud. During the year, GIA embarked on continuous auditing of areas regarding Customer Billing.

During the financial year, a total of 256 reports covering 319 assignments were issued. The areas reviewed included generation, transmission, distribution, procurement, engineering, projects, finance, corporate governance, human resources, logistics, information and communication technology, investments in subsidiaries and risk management.

Internal audit reports are issued to Management and contain improvement opportunities, audit findings, Management response and corrective actions in areas with significant risks and internal control deficiencies. Management provides the corrective and preventive actions as well as deadlines to complete the actions. These reports together with follow-up audit reports were tabled to the BAC for deliberation. Management is required to be present at the BAC meetings to respond and provide feedback on their progress on business process improvement opportunities identified by GIAD.



**Dato' Zainal Abidin bin Putih**

Chairman  
Board Audit Committee  
Tenaga Nasional Berhad  
(Senior Independent Non-Executive Director)