



Audit Committee Report

	Composition	Chairman	Mr Patrick Paul, INED
		Members	Ms Ada Tse, INED Mr Andrew Brandler, NED
	Meeting Frequency	<ul style="list-style-type: none">At least four times every year with senior management, the external auditor and the Group General Manager, ARM in attendance by invitationFour meetings in 2019	
	Responsibilities	To assist the Board in carrying out its responsibility of overseeing financial reporting, external audit, internal audit, risk management and internal controls	

2019 Main Activities

During the year, Audit Committee continued to oversee and consider matters arising from the financial reporting and audit process, risk management and internal controls and compliance as stated below:

Annual/Interim report and financial information

- Reviewed and endorsed the 2018 Annual Report and Corporate Responsibility and Sustainability Report and the annual results announcement, and the 2019 Interim Report and the interim results announcement
- Reviewed the valuations of the properties by independent valuers
- Reviewed all connected transactions and related party transactions including endorsing the continuing connected transactions of renewal of tenancy agreements of the office premises and the master agreement of carpet purchases for Board approval

Internal and external audits

- Reviewed the 2019 internal audit plan progress and approved the proposed 3-year internal audit plan commencing 2020 and assessed the proposed audit methodology
- Reviewed the key internal audit findings and initiatives recommended to the relevant operations and Head Office departments
- Endorsed KPMG’s audit report on the financial statements for the 2018 Annual Report
- Endorsed 2019 audit plans and reports from the external auditor on its audit and its review of the financial statements including accounting policies and areas of judgement and its comments on control matters

- Reviewed and endorsed the external auditor’s audit and non-audit fees for 2018 as described below, assessed the performance and endorsed the re-appointment of KPMG as the company’s independent auditor for 2019
- Discussed the key observations identified by KPMG during the course of their audit and the related recommendations

Financial reporting system, risk management and internal control systems

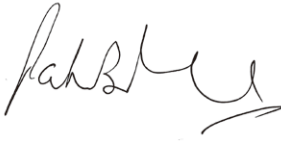
- Reviewed and approved the structure, adequacy of resources, staff qualifications and experience, training programmes and budget of the group’s accounting, internal audit and financial reporting functions
- Reviewed and endorsed semi-annually the Group Risk Management Report detailing the principal risks facing the group, mitigation controls and the adequacy and effectiveness of risk management and internal control systems
- Considered summaries of the internal representation letters from business operations which in turn formed the basis by which management confirmed the effectiveness of the group’s risk management and internal control systems; and approved the representation letters to the external auditor before issuance of the 2018 Annual Report and Corporate Responsibility and Sustainability Report and 2019 Interim Report

Others

- Reviewed the impacts and requirements of the new lease accounting standards
- Reviewed the group’s tax position and the impacts arising from the changes in the tax laws and regulations and the relevant actions being taken



“The Committee provides valuable independent challenge and assists the Board in fulfilling its oversight responsibilities on the group’s financial reporting, its risk management and internal controls, including the assessment of the group’s principal risks and risk tolerance, and the external and internal audit process.”


Patrick Paul
Chairman of the
Audit Committee
17 March 2020

- Reviewed the cybersecurity risks and preventive measures taken
- Reviewed the key changes to the Purchasing and Tendering Procedures and acknowledged the implementation across the group in January 2020
- Reviewed and confirmed the terms of reference of the Committee remained relevant and no revision was required

As the Chairman of the Audit Committee, I have met separately with the Group General Manager, ARM and the Audit Committee has met the external auditor without management being present.

Based on the reports from Group General Manager, ARM, summaries of internal representation letters and reports of the external auditor, the Audit Committee considers the overall financial and operating controls, risk management and internal control systems for the group during 2019 to be effective and adequate. Issues raised by the internal and external auditors during 2019 have been, or are being addressed by management, and the Audit Committee advised the Board that there are no issues required to be raised to shareholders.

In March 2020, the Audit Committee reviewed and endorsed this annual report, the Corporate Responsibility and Sustainability Report, which is posted on the website²², and the annual results announcement, and recommended the same to the Board for approval.

Ensuring the Independence of our External Auditor

The group’s external auditor is KPMG. We believe the independence of our external auditor is crucial to the effectiveness of our corporate governance and should not be compromised. The issue of auditor independence is reviewed annually. In engaging the external auditor for non-audit work, we take into account the internal guideline adopted to monitor the amount of non-audit work given to the external auditor to ensure the provision of such services do not impair KPMG’s independence or objectivity. In 2019, apart from audit work, the company also awarded non-audit work to KPMG including taxation and other services. In our first meeting in 2020, the Audit Committee reviewed the nature of non-audit work performed by KPMG and confirmed that it gave rise to no impairment of actual or perceived independence or objectivity of the audit work itself. The Committee has recommended to the Board the re-appointment of KPMG as independent auditor for Shareholders’ approval at the 2020 Annual General Meeting.

A summary of fees for audit and non-audit services to KPMG for the financial years ended 31 December 2019 and 2018 is as follows:

	2019 HK\$m	2018 HK\$m
Nature of Services		
Audit Services	10	11
Non-audit Services		
Taxation and other services	4	4