

# Report of the Audit Committee

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*K. Kittayarak*

**Prof. Dr. Kittipong Kittayarak**  
Chairman of the Audit Committee

## Dear Shareholders

PTT current Audit Committee consists of three knowledgeable independent directors, chaired by Professor Dr. Kittipong Kittayarak, with Mrs. Nuntawan Sakuntanaga and Mr. Vichai Assarasakorn serving as members. Mr. Chalot Boonlai, Executive Vice President, Office of Corporate Audit serves as secretary to this committee.

The committee executed its Board-assigned duties in line with its own charter, which agrees with SEC's best practices. It reviewed and pushed for PTT's compliance with corporate governance, sufficient risk management and internal control systems, efficient and effective internal audit, and a systematic structure and business processes. It ensured PTT's emphasis on being a transparent organization while upgrading the quality of PTT Group's internal audit to develop the Office of Corporate Audit into a trustworthy partner to supplement long-term value for PTT with due regard for satisfying stakeholders' comprehensive needs. Below are the highlights:

- Forging a corporate culture of Governance, Risk Management & Control and Compliance (GRC) and driving the Three Lines of Defense concept. To this end, it advocated proactive internal audit, in which the internal auditor communicated and educated to executives and the workforce on corporate governance, risk management, internal control, and compliance in line with the criteria, implementation of the anti-corruption policy and internal audit processes through description, video clips, and books to publicize the lessons learned from the past audits. GRC serves as a key tool for executives to supervise and direct business for transparency to accomplish business objectives under business ethics. Besides, the committee pushed PTT to improve complaint-handling and whistleblowing for greater efficiency, effectiveness, and fairness to all.

- Pushing for prepared personnel, regarded as a vital business resource so that internal auditors may become knowledgeable and competent, equipped with essential skills required to accommodate volatile business circumstances. Internal auditors must be able to leverage IT systems well. Finally, the committee valued the development of internal auditors to provide them with competencies for professional and efficient audits.

- Advocating the leveraging of IT for optimal benefit to PTT by linking the work of the 1<sup>st</sup> Line of Defense (operators), the 2<sup>nd</sup> Line of Defense (oversight units), and the 3<sup>rd</sup> Line of Defense (the internal auditors) for greater efficiency and effectiveness in operation and oversight, while preventing non-compliance with the law or PTT's regulations as well as preventing the occurrence of corrupt practices.

- Upgrading internal audit by focusing on internal auditors' professionalism and credibility to raise the efficiency and effectiveness of their work to keep pace with business and the tide of change in the present digital world. Valuing risks could significantly affect the corporation, particularly strategic ones and risk aspects that attract the public. Focusing on audit to improve business efficiency, which is a link for the convergence of business units and the internal audit function. Finally, encouraging the application of IT tools and system for greater audit efficiency matching the greater volume of data.

This year the committee held 17 meetings, where consultations were held with the management, the internal auditor, and the external auditor as highlighted below:

**1. Review of financial statements:** With the management, Office of Corporate Audit, and external auditor, the committee reviewed PTT's quarterly and annual financial statements and consolidated financial statements this year as well as connected transactions, related party transactions, or those with potential conflicts of interest. The committee asked the external auditor about the accuracy and completeness of the financial statements, adjustment of key account entries affecting the statements, adequacy and suitability of account recording, audit scope, information disclosure that was accurate, complete, and adequate, as well as its own freedom. All these elements ensured that the preparation of the financial statements followed legal requirements and accounting

standards under generally accepted accounting principles that are credible and timely, and that adequate information was disclosed in such statements for the benefit of users.

The committee met exclusively with the external auditor team on one occasion in the absence of the management to consult them about audit plans, freedom of execution, and their professional views with a focus on accurate, complete, and adequate presentation of data.

**2. Review of risk management:** Each quarter, in conjunction with the management, the committee reviewed the efficiency and suitability of risk management processes resulting from inside and outside PTT, including the risk management policy, plans, and management approach that affect PTT Group's operations and other event risks. It provided recommendations for improvement of these, focusing on corporate strategic risks; management and grooming of personnel to accommodate volatile business circumstances; cybersecurity management; Big Data exploitation; the need for investment vetting in PTT Group's megaprojects; and management of aspects of public interest. The committee supported the management's development of a systematic work plan to be ready to address unforeseen events.

**3. Review of the effectiveness of internal control:** The committee valued the forging of awareness among the management and employees of corporate governance, risk management, internal control, and compliance (GRC). It promoted the GRC corporate culture so that PTT may command sound management practices together with efficient and effective business operations under the Three Lines of Defense concept, which stressed everybody's understanding and strict compliance with regulations and their own job responsibilities. The focus was on prevention and problems faced by the 1<sup>st</sup> Line of Defense and on professionalism and systematic work. Every quarter it reviewed PTT's internal control system with the external auditor and the Office of Corporate Audit by reviewing operations; resource consumption; stewardship of properties; prevention or reduction of errors or damage, losses, waste, or corrupt practices; credibility of financial reports; compliance with laws, regulations, and Cabinet resolutions. The external auditor agreed that no significant problems or material shortcomings had been detected.

This year's assessment outcomes of internal control under the Audit Commission Regulations on the Definition of Internal Audit Standard, B.E. 2544 (2001), found that PTT's internal control was adequate and effective for its businesses. Finally, all executives cooperated by responding to the internal control assessment questionnaires.

**4. Review of good governance:** This year the committee focused on the management policy in support of systematic corporate governance and supported application of the IT system in conducting corporate governance and audit for greater job efficiency and effectiveness, while preventing non-compliance with the law or PTT's regulations, including minimization of the probability of corruption. It pushed for the Internal Control Mindset to forge awareness of the prevention and resistance to corrupt practices among executives and employees through ongoing seminars and training. The committee also reviewed compliance with relevant laws and regulations, as well as defined business processes, and related party transaction and connected transactions among PTT Group to ensure sensible conformance to normal business conditions. Finally, the committee reviewed the process of complaint-handling and whistleblowing and provided recommendations on process improvement to raise efficiency and effectiveness and ensure alignment with PTT's corporate governance and business philosophy. These included careful consideration of complaints for fairness to all parties, equipped with suitable protection of complainants and whistleblowers.

The committee held one meeting with the Management Committee, counseling them on the actions needed to ensure PTT's Pride of Thais goal achievement, anti-corruption actions, social responsibility activities, and comprehensive due regard for stakeholders. It also accelerated corrective actions in response to audit recommendations.

**5. Review of internal audit:** The committee provided recommendations on the upgrading of internal audit in manpower, processes, and tools and technology with a focus on professionalism and credibility of internal auditors. To this end, the efficiency and effectiveness of their work are enhanced to keep pace with the digital world's business and tide of change. PTT valued risks, particularly those that could significantly impact the corporation, especially strategic risks, including investment in projects of prohibitive value and business implementation of emerging IT systems, and emerging risks together with risk aspects of public interest. On these matters, PTT's focus was on audit for productivity improvement and application of IT tools and technology to audit work, as well as internal auditor development so that they may be competent enough to employ such systems. Also, the extension of CCMS (Continuous Control Monitoring and Auditing Systems) to aid screening and continuous monitoring of abnormalities (Red Flags) and potential frauds in various processes, to sales processes and the Order to Cash process, which is due for completion by 2018; constant improvement of the CCMS system for the Procure to Pay process for modernity and efficiency; and finally, the oversight for internal audit quality assessment and encouragement of internal auditors to qualify for international certificates of the audit profession.

The committee reviewed the Office of Corporate Audit's strategic plans, annual and long-term internal audit plans, and conformance to the plans and audit findings. To this end, it provided recommendations and monitored corrective actions for significant aspects of good governance and adequate internal control. It considered amending the charter for internal audit and reviewed the annual budget of the office, its personnel development, recruitment, rotation, and training plans. Also reviewed were the office's adequacy and suitability of resources, KPIs, and the annual merit consideration for the executive vice president in charge of this office.

**6. Quality assurance of the Audit Committee:** The committee did not only review and amend its own charter, but also assessed its own performance as a group and individuals (performance self-assessment and cross-assessment) in line with the best practices of the State Enterprise Policy Office to ensure efficient and fruitful performance. Assessment findings were regarded as excellent. Finally, the committee reported its performance outcomes to the Board every quarter, with remarks and views provided for process improvement of governance, risk management, internal control, and compliance with PTT's regulations.

**7. Proposal of the external auditor for 2018:** The committee endorsed the Office of the Auditor General of Thailand (OAG) as PTT's external auditor for 2018 for the Board's concurrence and the shareholders' final approval at the AGM 2018. Incidentally, in the absence of PTT's management, the committee reviewed with the external auditor the work scope, approach, and plans of the external auditor.

In summary, the Audit Committee performed its charter duties and responsibilities with competence, care, prudence, and adequate freedom while providing creative views and recommendations for the equitable benefit of all stakeholders. Its opinion is that PTT's financial statements were accurate, credible, and in line with generally accepted accounting standards. In addition, PTT commanded compliance with applicable laws and business obligations, together with good governance, adequate risk management and a suitable, effective internal audit system.