FRONTKEN

FRONTKEN CORPORATION BERHAD

200401012517 (651020-T)
(Incorporated in Malaysia under the Companies Act 2016)

POLICIES AND PROCEDURES TO ASSESS THE SUITABILITY, OBJECTIVITY AND INDEPENDENCE OF EXTERNAL AUDITORS

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1. INTRODUCTION AND PURPOSE

The Malaysian Code on Corporate Governance ("MCCG") stipulates that the Audit Committee ("AC") should have policies and procedures to assess the suitability, objectivity and independence of the external auditor to safeguard the quality and reliability of audited financial statements.

Frontken Corporation Berhad ("the Company"), its Board of Directors and AC are committed to ensuring the suitability, objectivity and independence as well as the sound performance of the external auditors. The objective of this policy is to outline the guidelines and criteria for the AC to assess and monitor the external auditors in order to preserve the reliability and credibility of the financial statements.

2. INDEPENDENCE OF EXTERNAL AUDITORS

The AC shall review the independence of the external auditors annually.

The external auditors are precluded from providing any services that may impair or compromise their independence or conflict with their role as external auditors. In ensuring the independence of external auditors, the AC shall obtain written assurance from the external auditors, confirming that they are, and have been, independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.

The audit partner responsible for the external audit of the Company is subject to rotation at least once every 7 years, complies with the By-Laws by the Malaysia Institute of Accountants ("MIA").

A formal partner of the external audit firm of the Company has to observe a cooling-off period of at least three (3) years before being appointed as a member of the AC. This applies to all partners of the external audit firm and/or its affiliate firm (including those providing advisory services, tax consulting, etc.). The cooling off period safeguards the independence of the audit by avoiding the potential threats which may arise when a former partner of the external audit firm is in position to exert significant influence over the audit and preparation of the Company's financial statements.

3. APPOINTMENT, RE-APPOINTMENT AND REMOVAL OF EXTERNAL AUDITORS

The AC has been entrusted with the responsibility of recommending the appointment, re-appointment and removal of the external auditors to the Board.

The AC's recommendation on the appointment of external auditors shall be anchored on a defined set of criteria. In addition to the aspects of independence and objectivity, the AC when recommending shall amongst other consider:

(a) the adequacy of the experience and resources of the external audit firm;
(b) the person assigned to the external audit engagement;
(c) the external audit firm's audit engagements;
(d) the size and complexity of the Company; and
(e) the number and experience of supervisory and professional staff assigned to the particular audit.

The AC shall review the re-appointment of the external auditors annually and ascertain whether there is reason to believe that the external auditors are not suitable for re-appointment.

In assessing the quality of services rendered by the external auditors during the year under review, the AC may be guided by the following criteria including but not restricted to:

(a) the overall comprehensive of the external audit plan and the adequacy of audit scope;
(b) the ability of the external audit firm to meet audit deadlines;
(c) the timeliness in addressing and delivery audit issues during the audit;
(d) the competency of external audit team;
(e) the resource capacity of the external audit firm in relation to the audit;
(f) the effectiveness of the external audit firm's recommendation in addressing weaknesses observed during the previous audits; and
(g) the information presented by the external audit firm in its Annual Transparency Report. If the audit firm is not required to issue an Annual Transparency Report, the AC is encourage to engage the audit firm's on matters typically covered in an Annual Transparency Report including the audit firm's governance and leadership structure as well as measures undertaken by the firm to uphold audit quality and manage risks.

    Note: Audit firms registered with the Audit Oversight Board (AOB) with more than 50 public interest entity (PIE) audit clients; and total market capitalisation of the audit firm's PIE clients above RM10 billion at the end of the calendar year for two consecutive years are required to issue an Annual Transparency Report beginning 2020.

4. PROVISION OF NON-AUDIT SERVICES

The external auditors can be engaged to perform non-audit services that are not, and are not perceived to be, in conflict with the role of the external auditors. This excludes audit related work in compliance with statutory requirements. To ensure that the provision of non-audit services does not impair the external auditors' independence or objectivity, the AC should consider the following:

(a) whether the skills and experience of the external auditors make it a suitable service provider of the non-audit services;
(b) whether safeguards have been deployed to eliminate or reduce to an acceptable level any threat to objectivity and independence in the conduct of the audit resulting from the non-audit services provided by the external auditors; and
(c) the nature of the non-audit services, the related fee levels and the fee levels individually, and in aggregate relative to the audit fee.

The AC should satisfy itself that any safeguards required by legislation or standards are implemented and complied with.

The prohibition of non-audit services is predicated on the following basic principles:

(a) external auditors cannot function in the role of Management;
(b) external auditors cannot audit their own work; and
(c) external auditors cannot serve in an advocacy role of the Company.

The external auditors shall also observe and comply with the By-Laws by MIA in relation to the provision of non-audit services, which include a prohibition on the following:

(a) accounting and book keeping services;
(b) valuation services if the valuations would have a material effect on the financial statements;
(c) internal audit services;
(d) design or implementation of information systems services;
(e) litigation support services in resolving a dispute or litigation when the amount involved is material;
(f) recruitment services; and
(g) corporate finance services which involve promoting, dealing in, or underwriting shares.

Examples of non-audit services that may be provided by the external auditors include the following:

(a) advice and assurance on the interpretation and implementation of accounting standards, financial reporting matters and governance regulation;
(b) review and agreed upon procedures in relation to interim financial statements;
(c) advice and assurance in respect of direct and indirect tax related matters;
(d) due diligence assistance on acquisitions, mergers, joint ventures and disposal;
(e) internal accounting and risk management control reviews, including information systems (IT risk management/IT audit) and reviews of policy and procedures compliance;
(f) review on statement of risk management and internal control;
(g) audit of employee benefit plans; and
(h) audit, review or attestation of information derived from the Company's financial systems as required by third parties.

Management shall obtain written assurance from the external auditors that the independence of the external auditors will not be impaired by the provision of non-audit services.

If the fees for non-audit services in any financial year exceed 50% of the total amount of audit fees paid to the external auditors, approval shall be seek from the AC.

5. REVIEW AND AMENDMENT

This Policy approved by the Board shall be reviewed from time to time, as and when required or necessary, to ensure that new laws, regulations or relevant developments having an impact on the discharge of the Board and AC's responsibilities are taken into account.

Approved by the Board on 3 November 2021.