

AUDIT COMMITTEE: TERMS OF REFERENCE

Definition:

“Committee”	: The audit committee of the Company.
“Company”	: Frontken Corporation Berhad
“Group”	: The Company and its subsidiaries.
“Listing Requirements”	: Bursa Securities Main Market Listing Requirements including any relevant practice and/or guidance notes, directives, guidelines issued pursuant thereto and any amendment, modification, supplemental to the Listing Requirements that may be made from time to time.
“the Board”	Shall be the number of directors necessary to form the quorum of a board of directors’ meeting as stipulated in the Constitution of the Company.
“the Directors”	: The directors for the time being of the Company or such number of them who have the authority to act for the Company.
“the Code”	: Malaysian Code on Corporate Governance and as amended from time to time.
“Bursa Securities”	: Bursa Malaysia Securities Berhad (Company no. 635998-W) for so long as the shares of the Company are listed and quoted on it .
“the Secretary”	: Any person or persons jointly appointed to perform the duties of the Secretary of the Company including any person(s) appointed temporarily and any representative of the Secretary.

1. Composition and membership

- 1.1 The Board must appoint the members of the Committee from amongst its Directors which fulfils the following requirements:-
- (a) the Committee must be composed of no fewer than three (3) members who are financially literate;
 - (b) all the Committee members must be non-executive directors, with a majority of them being independent directors; and
 - (c) at least one (1) member of the audit committee:-
 - (i) must be a member of the Malaysian Institute of Accountants;
 - (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) years’ working experience and :-
 - (aa) he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or
 - (bb) he must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967; or
 - (iii) fulfils such other requirements as prescribed or approved by Bursa Securities.

- 1.2 The Board must ensure that no alternate director is appointed as a member of the Committee.
- 1.3 The Board must ensure that the members of the Committee understand the emphasis of time commitment to ensure sufficient attention is given to the Committee's core duties.
- 1.4 No former key audit partner shall be appointed as a member unless he has observed a cooling off period of at least two (2) years prior to his appointment.

2. Chairman of the Committee

- 2.1 The members of the Committee must elect a chairman among themselves who is an independent director and is not the chairman of the Board.
- 2.2 The responsibilities of the Chairman of the Committee, amongst others, are as follows :-
 - (a) Planning and conducting meetings;
 - (b) Overseeing reporting to the Board;
 - (c) Encouraging open discussion during meetings; and
 - (d) Developing and maintaining active on-going dialogue with management and both the internal and external auditors.
- 2.3 If the Chairman is not present at a meeting within fifteen minutes after the time appointed for holding the meeting, the members of the Committee may elect one of their numbers to be the chairman of the meeting.

3. Functions and Duties of the Committee

The Committee should carry out the duties below for the Group.

- 3.1 Financial Reporting
 - (a) The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results' announcements and any other formal announcements relating to its financial performance, reviewing significant financial reporting issues and judgements that they contain. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents such as announcements of price-sensitive nature.
 - (b) The Committee shall carry out the following financial reporting responsibilities:
 - (i) Reviewing earnings releases and financial reports;
 - (ii) Assessing the appropriateness of management's selection of accounting policies and disclosures in compliance with approved accounting standards;

- (iii) Ensuring timely submission of financial statements by management;
 - (iv) Reviewing and understanding management's representation; and
 - (v) Assessing whether the financial report presents a true and fair view of the Company's financial position and performance and complies with regulatory requirements.
- (c) For the quarterly results and year end financial statements, the Committee shall review them before the approval by the Board, focusing particularly on :-
- (i) Changes in or implementation of major accounting policy;
 - (ii) Significant and unusual events;
 - (iii) Compliance with accounting standards and other legal requirements; and going concern assumption.
- (d) For the review of the financial statements, the Committee shall focus on the following:-
- (i) To monitor the integrity of the Company's financial information, particularly by reviewing the relevance and consistency of the accounting principles used (including criteria and principles used for consolidation) and understanding the effects of any changes in the accounting policies in regulatory requirements or mooted by management for better accounting treatment;
 - (ii) To understand the methods used to account for any complex and unusual transactions where their treatment may be open to different approaches and any significant accounting policy issues or audit adjustments recommended by auditors (those agreed by management and those waived);
 - (iii) To ensure any significant accounting policy issues or audit adjustments recommended by auditors are communicated early enough to enable appropriate actions to be taken, as needed;
 - (iv) To assess the process of how transactions are recorded in the system to ensure accuracy, completeness and consistency of financial information, including compliance with the relevant accounting standards and other legal requirements;
 - (v) To consider related party transactions, the financial reality of such transactions and whether they have been entered into according to the terms as stipulated in the shareholders' mandate or in the best interest of the Company; and
 - (vi) To request the External Auditors to present their findings on internal control weaknesses noted during their statutory audits and highlighting findings which are disputed by management or where management has not agreed to implement remedial actions to rectify the reported weaknesses.

3.2 Internal Controls and Risk Management Systems

The Committee shall perform the following:

- (a) To establish a risk management committee and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness in reviewing the effectiveness of the Company's risk management and internal controls systems;
- (b) To ensure management has implemented policies ensuring the Company's risks are identified and evaluated and that the internal controls in place are adequate and effective to address the risks. The risks include strategic risks, financial risks, operational risks, technology risks, legal risks and reputation risks. Management should ensure that each category of risks is adequately monitored and addressed by the Company's risk management procedures;
- (c) To receive regular reports addressing the risks faced by the Company, if the Company is satisfactorily managing and/or reserving competent legal guidance in relation to compliance with legal and regulatory requirements;
- (d) To monitor warning signs which may trigger assessment, enquiry and investigation, where appropriate;
- (e) To consider the following as part of the risk assessment process:-
 - (i) The principal risks and the process of identification, evaluation and management of the principal risks;
 - (ii) The effectiveness of internal control systems deployed by management to address those risks;
 - (iii) Corrective measures undertaken to remedy failings and/or weaknesses;
 - (iv) Further requirement for extensive monitoring;
 - (v) Ability of the Company to meet changes in significant risks and respond to constant changes to the business and/or external environment;
 - (vi) Scope and quality of management's ongoing monitoring of risks and the work of internal audit and other assurance providers on the robustness of the risk management process;
 - (vii) Communication and monitoring of risk assessment results to the Board; and
 - (viii) Actual and potential impact of any failing/weakness, particularly those related to financial performance/conditions affecting the Company.
- (f) To review and approve the Risk Management and Internal Control Statement to be included in the Annual Report concerning internal controls and risk management; and

- (g) To ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness.

3.3 Whistleblowing

- (a) The Committee shall review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

Please refer to the Whistle Blowing Policy of the Group for more details.

3.4 Internal Audit

The Committee shall:-

- (a) Review the internal audit charter to ensure the appropriate company structures, authority, access and reporting arrangements are in place;
- (b) Advise the Board on the recommendation of an outsourced appointment of internal auditors;
- (c) Ensure that the internal audit function is adequately resourced and enjoys appropriate standing within the Company;
- (d) Assist the Board to ensure that senior management establishes and maintains adequate and effective internal controls;
- (e) Ensure adequate monitoring and review of the effectiveness of the systems established by management to identify, assess, manage and monitor the various risks arising from the Company's activities;
- (f) Review the internal audit coverage and annual work plan, and monitoring progress of the work plan as well as fees or costs associated with the internal audit function;
- (g) Advise the Board on the adequacy of internal audit resources to carry out its responsibilities, including completion of the approved internal audit plan;
- (h) Oversee the co-ordination of audit programmes conducted by the internal audit function;
- (i) Review all internal audit reports and advising the Executive Chairman and the Board on significant issues identified in internal audit reports and the action taken on the issues raised, including the identification and dissemination of best practices;
- (j) Monitor management's implementation of internal audit recommendations;

- (k) Assist the Board to ensure that appropriate controls are in place for monitoring compliance with laws, regulations and supervisory requirements and relevant internal policies;
- (l) Periodically reviewing the performance of the internal audit function;
- (m) Act as a forum for communication between the Board, senior management and internal audit function;
- (n) Ensure that the internal auditors are given full access to all the documents relating to the Company's governance, financial statements and operational assessments, including direct access to the Committee;
- (o) Determine if the internal audit function is conducted according to the standards set by the recognized professional bodies and conduct regular reviews and appraisals of the effectiveness of the governance, risk management and internal control processes within the Company; and
- (p) Meet the head of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the Senior Independent Non-Executive Director of the Board and to the Committee.

3.5 External Audit

The Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the company's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required;
- (b) oversee the relationship with the external auditors including (but not limited to):
 - (i) reviewing their remuneration, whether fees for audit or non-audit services and verifying that the level of fees is appropriate to enable an adequate audit to be conducted;
 - (ii) approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iii) assessing annually the suitability, independence and objectivity of the external auditor, taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
 - (iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the company (other than in the ordinary course of business);

- (v) agreeing with the Board a policy on the employment of former employees of the Company's auditors, then monitoring the implementation of this policy;
 - (vi) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements; and
 - (vii) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
- (c) meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least twice a year, without management being present, to discuss their remit and any issues arising from the audit;
- (d) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- (e) review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
- (i) a discussion of any major issues that arose during the audit;
 - (ii) any accounting and audit judgements; and
 - (iii) levels of errors identified during the audit,
- the Committee shall also review the effectiveness of the audit;
- (f) review any representation letter(s) requested by the external auditor before being signed by management;
- (g) review the management letter and management's response to the auditor's findings and recommendations;
- (h) report to the Board on the matters set out in and relating to the Code as amended from time to time;
- (i) prepare a summary of its work during the year for inclusion in the Company's Corporate Governance Statement/Report (including a report on how the Committee met its responsibilities in its review of the Company's quarterly and annual results and internal control system, and its other duties under the Code; details of the Company's non-compliance with the Code and Listing Requirements (if any) and remedial steps taken by the Company to address such non-compliance); and
- (j) develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

3.6 Review of conflict of interest situations and Related Party Transactions

- (a) The Committee shall review and report to the Board any related party transactions and conflict of interest situations that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity and ensure that the transactions are carried out on normal commercial terms and are not prejudicial to the interests of the Company or its minority shareholders.
- (b) The Committee should ensure that management establishes a comprehensive framework for the purposes of identifying, monitoring, evaluating, reporting and approving such situations and transactions. Such a framework should be able to provide sufficient assurance that related party transactions and conflict of interest situations, including recurrent related party transactions, are identified, evaluated, presented for review and approval and reported, where required. The Committee may request the internal auditor or other external consultants to review the effectiveness, adherence to and relevance of the framework.
- (c) Additionally, there could be transactions that may not fall within the definition of a related party transaction as per the Listing Requirements strictly but may still involve certain level of conflict of interest due to the close proximity of the transacting parties or where the director or major shareholder may derive personal gain or advantage from the transaction or arrangement.

3.7 Reporting Responsibilities

- (a) The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- (b) The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- (c) The Committee shall compile a report to shareholders on its activities to be included in the Company's Annual Report.

3.8 Corporate Governance

- (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (b) to review and monitor the training and continuous professional development of directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance/risk management manual (if any) applicable to employees and directors;
- (e) to review the Company's compliance with the Code and disclosure in the Corporate Governance Report/Statement;

- (f) to report to the Board its decisions or recommendations (unless there are legal or regulatory restrictions on its ability to do so); and
- (g) to prepare a summary of its work during the year for inclusion in the Company's Corporate Governance Report/Statement (including a report on the corporate governance policies and the work of the Committee during the year).

3.9 Other Matters

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the company secretaries for assistance as required;
- (b) be provided with appropriate and timely training, in the form of an induction programme for new members and on an ongoing basis for all members of the Committee;
- (c) give due consideration to laws and regulations, the provisions of the Malaysian Code of Corporate Governance and the requirements of Bursa Securities and other securities rules as appropriate;
- (d) be responsible for co-ordination between the internal and external auditors on their respective roles and responsibilities;
- (e) oversee any investigation of activities that are within its Terms of Reference and act as a court of the last resort; and
- (f) at least once in every three (3) years, to review its own performance, constitution and Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

4. Attendance of other directors and employees

- 4.1 The Board must ensure that other directors and employees attend any particular Committee Meeting only at the Committee's invitation and not otherwise.

5. Procedure of the meetings of the Committee

5.1 Frequency of Meetings

The Committee shall meet at least four (4) times a year at appropriate times in the reporting cycle and otherwise as required.

5.2 Quorum

- (a) In order to form a quorum in respect of the Committee, the majority of the members present must be independent directors; and

- (b) A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested on the Committee.

5.3 Notice of meeting

- (a) Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary.
- (b) Any Committee member may waive notice of any meeting and any such waiver may be retroactive.
- (c) Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee by e-mail at the email address provided by each member of the Committee, and also any other Directors or persons required to attend, at least one (1) week before the date of the meeting. Supporting papers shall be emailed to Committee members and to other attendees as appropriate, at the same time or as and when available before each meeting.

5.4 Meetings and proceedings

- (a) The Committee members may participate in a meeting of the Committee by means of a teleconference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, without a Committee member being in the physical presence of another Committee member or members, and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting. The Committee members participating in any such meeting shall be counted in the quorum for such meeting and subject to there being a requisite quorum present, all resolutions agreed by the Committee members in such a meeting shall be deemed to be as effective as a resolution passed at a meeting in person of the Committee members duly convened and held. A meeting conducted by means of a conference telephone or similar communications equipment as aforesaid is deemed to be held at the place agreed upon by the Committee members attending the meeting, provided that at least one of the Committee members present at the meeting was at the place for the duration of the meeting.
- (b) Questions arising at any meeting of the Committee members shall be determined by a majority of votes. Where two (2) Committee members form a quorum, the Chairman of a meeting at which only such a quorum is present or at which only two (2) Committee members are competent to vote in the question at issue, shall not have a casting vote.

5.5 Minutes of Meetings

- (a) The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- (b) The Secretary shall on the declaration of interest of any Committee member ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

- (c) Minutes of the Committee's meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board.
- (d) The Secretary shall keep record of all conclusions and resolutions passed at all Committee meetings, including the names and signatures of the attendants.
- (e) Full minutes of the Committee meetings shall be kept by the Secretary.

5.6 Annual General Meeting ("AGM")

- (a) The Chairman of the Committee shall attend the AGM and be prepared to respond to any shareholder questions on the Committee's activities.

6. Reporting of breaches to Bursa Securities

- 6.1 Where a member of the Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements, the member must promptly report such a matter to Bursa Securities.

7. Rights of the Committee

- 7.1 The Board must ensure that wherever necessary and reasonable for the performance of its duties, the Committee must, in accordance with a procedure to be determined by the Board and at the cost of the Company:-

- (a) have authority to investigate any matter within its terms of reference;
- (b) have the resources which are required to perform its duties;
- (c) have full and unrestricted access to any information pertaining to the Group;
- (d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;
- (e) be able to obtain independent professional or other advice; and
- (f) be able to convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other directors and employees of the Group, whenever deemed necessary.

8. Retirement and resignation

- 8.1 In the event of any vacancy in the Committee resulting in the non-compliance of paragraph 1 (1.1) above, the Company must fill the vacancy within three (3) months.

9. Review of the Committee and policy on appointment of members of the Committee

- 9.1 The Directors of the Company must review the term of office and performance of a member and each of its members at least once every three (3) years to determine whether such members have carried out their duties in accordance with their terms of reference.

10. Authority

10.1 The Committee is authorised:

- (a) to seek any information it requires from any employee of the Company in order to perform its duties;
- (b) to obtain, at the Company's expense, outside legal or other professional advice on any matters within its Terms of Reference; and
- (c) to call any employee to be questioned at a meeting of the Committee as and when required.

11. Review of the Terms of Reference of the Committee

The Board shall review these Terms of Reference from time to time, as and when required or necessary, to ensure they remain consistent with the Board's objectives and responsibilities.

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Reviewed and updated on 5 November 2019