

Overview

The Halex Holdings Berhad (“Company”) Audit Committee (“the Committee”) is responsible for making recommendations to the Board regarding the appointment and removal of the external auditor. In making those recommendations, the Committee is authorised to conduct periodic reviews of the external auditor.

Selection and Appointment of External Auditor

The Board has delegated to the Committee the responsibility for the appointment, remuneration and removal of external auditor.

Pursuant to Section 271 (1) of the Companies Act 2016, the Company shall at each annual general meeting appoint or re-appoint the external auditors of the Company, and the external auditors so appointed shall, hold office until the conclusion of the next annual general meeting of the Company.

Should the Committee determine a need for a change of external auditors, the Committee will follow the following procedures for selection and appointment of new external auditors:-

- (a) the Committee to identify the audit firms who meet the criteria for appointment and to request for their proposals of engagement for consideration;
- (b) the Committee will assess the proposals received and suitability of the audit firms;
- (c) the Committee may seek assistance of the Chief Financial Officer to perform items (a) and (b) above;
- (d) the Committee will recommend the appropriate audit firm to the Board for appointment as external auditors; and
- (e) the Board will if deemed appropriate, endorse the recommendation and seek shareholders’ approval for the appointment of the new external auditors and/or resignation/removal of the existing external auditors at the general meeting.

Objectivity and Independence of External Auditor

The independence of external auditor is essential to the provision of an objective opinion on the truth and fairness of the financial statements of the Company.

Pursuant to Recommendation 8.3 of Principle B of the Malaysian Code on Corporate Governance 2017, the Audit Committee is also mandated to ensure continuing objectivity, suitability and independence of the external auditor.

The external auditor is precluded from providing any services that may impair their independence or conflict with their role as external auditor.

The Committee shall obtain assurance from the external auditor 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.

Non-audit Service

The external auditor can be engaged to perform non-audit services that shall not, and are not perceived to be, in conflict with the role of the external auditor.

The prohibition of non-audit services is based on three (3) basic principles as follows:-

- (a) external auditor cannot function in the role of Management;
- (b) external auditor cannot audit their own work; and
- (c) external auditor cannot serve in an advocacy role of the Company and its subsidiaries (“the Group”).

The external auditor shall observe and comply with the By-Laws of the Malaysian Institute of Accountants in relation to the provision of non-audit services, which include the following:-

- (a) valuation services;
- (b) taxation services;
- (c) internal audit services;
- (d) IT systems services;
- (e) litigation support services;
- (f) recruitment services; and
- (g) corporate finance services.

All engagements of the external auditor to provide non-audit services are subject to the approval/endorsement of the Committee.

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

Rotation of Engagement Partner

The Company recognises that there exists a threat to the auditor’s independence where the same audit partner conducts consecutive audits of the Company.

To mitigate this risk, it is important for regular audit partner rotation to occur.

The audit partner responsible for the external audit of the Group is subject to rotation at least every five (5) financial years in accordance with the MIA By-Laws (Amended as at 22 March 2018) which requires that the engagement partner involved in the external audit should not remain in a key audit role beyond five (5) years and cannot be re-engaged to play a significant role in the audit of the Company for at least another two (2) successive years.

Nevertheless, in accordance with the MIA By-Laws, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm’s control, be permitted an additional year on the audit team as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key audit partner may remain on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner.

When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than five (5) years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.

Appointment of Former Key Audit Partner as Member of Audit Committee

It is the Group's policy that requires a former key audit partner to observe a cooling-off period of at least two years before being appointed as a member of the Committee.

Reporting

The external auditor must provide an annual declaration addressed to the Committee confirming:

- (a) the nature of any non-audit services provided to the Company; and
- (b) that the auditor has maintained its independence in accordance with relevant legislation and professional accounting standards.

Annual assessment

The Committee shall carry out annual assessment on the performance, suitability and independence of the external auditor based on the following four (4) key areas: -

- (a) quality of service;
- (b) sufficiency of resources;
- (c) communication and interaction; and
- (d) independence, objectivity and professional skepticism.

The Committee may also request the Chief Financial Officer and/or Head of Internal Audit to perform the annual assessment of the external auditors.

Review of the policy

The Committee will review the Policy periodically to ensure that it continues to remain relevant and appropriate.

This policy was updated and approved by the Board of Directors of Halex Holdings Berhad on 20 August 2018.