



**Metrod**

**METROD HOLDINGS BERHAD**

**REGISTRATION NO. 201001032606 (916531-A)**

## **TERMS OF REFERENCE OF AUDIT COMMITTEE**

### **MEMBERSHIP**

1. The members of the Audit Committee (“AC”) shall be appointed by the Board of Directors amongst its Directors, based on the recommendation of the Nominating and Remuneration Committee, which fulfils the following requirements:
  - (a) the AC must be composed of not fewer than three (3) members;
  - (b) all AC members must be Non-Executive Directors, with a majority of them being Independent Directors; and
  - (c) at least one (1) member of the AC:
    - i) must be a member of the Malaysian Institute of Accountants; or
    - 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 1 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) fulfills such other requirements as prescribed or approved the Bursa Malaysia Securities Berhad.
2. The members of the AC shall elect a Chairman (must not be the Chairman of the Board) from among themselves who shall be an Independent Director (“AC Chairman”) ensuring the overall effectiveness and independence of the AC.
3. No Alternate Director should be appointed as a member of the AC.
4. A former partner of the external audit firm and/or the affiliate firm (including those providing advisory services, tax consulting etc.) of the Company or any entity within the Group is required to observe a cooling-off period of at least three (3) years before being appointed as a member of the AC.
5. In the event of any vacancy in the AC (including AC Chairman) resulting in the non-compliance of the Main Market Listing Requirements of the Bursa Malaysia Securities Berhad (“MMLR”) pertaining to the composition of AC, the Board of Directors shall fill the vacancy within three (3) months of the occurrence of that event.



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6. The terms of office, the effectiveness and performance of the AC and each of its members must be reviewed by the Nominating and Remuneration Committee annually to determine whether the AC and its members have carried out their duties in accordance with this Terms of Reference.

**CHAIRMAN**

1. The AC Chairman shall report to the Board of Directors on all matters within its duties and responsibilities.
2. Encouraging open discussion during meetings and take reasonable steps in ensuring substantive flow of relevant information to the AC.
3. Creating and maintaining an active on-going communication with Senior Management and both the Internal Auditors and External Auditors.

**SECRETARY**

1. The Company Secretary shall be the Secretary of the AC or in his absence, the Chairman shall choose another person as the Secretary of the meeting.
2. The agenda together with the meeting papers should be provided to all members of AC at least five (5) business days in advance or a timeline set and agreed between the Chairman and the Company Secretary before the meetings for perusal and deliberating at the meetings. However, confidential papers may be distributed during the meeting but presentations or briefings will be made by Management to aid the members of AC in making well-informed decisions.
3. The Secretary shall cause minutes of all proceedings of the AC meeting to be entered in books for that purpose. The minutes of the AC meeting should be circulated to all the AC members. Minutes shall be kept by the Company at the Registered Office and shall be opened for inspection by any AC member.

**MEETING PROCEDURES**

1. Meetings shall be held not less than four (4) times a year, or more frequently, as and when required.
2. Upon the request of the Internal Auditors and/or External Auditors, the AC Chairman shall convene a meeting to consider any matter the Internal Auditors and/or External Auditors believe should be brought to the attention of the Board of Directors or shareholders of the Company.



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3. The quorum for the meeting shall be two (2) members with a majority of whom present must be Independent Non-Executive Directors.
4. The Finance Director, the Head of Internal Audit and a representative of the External Auditor shall normally attend AC meetings. Any other Directors and employees may attend any particular meeting only at the AC's invitation, specific to the relevant meeting.
5. The AC shall regulate the proceedings of its meetings, in particular:
  - (a) the calling of meetings;
  - (b) the notice to be given of such meetings;
  - (c) the voting and proceedings of such meetings;
  - (d) the keeping of minutes; and
  - (e) the custody, production and inspection of such minutes.
6. The AC may call for a meeting as and when required with reasonable notice as the Committee Members deem fit. The Committee Members may participate in a meeting by means of tele-conference, video-conference or any similar or other communications equipment by means of which all persons participating in the meeting can hear each other. Such participation in a meeting shall constitute presence in person at such meeting. Minutes of such a meeting signed by the Chairman of the AC shall be conclusive evidence of any resolution of any meeting conducted in the manner as aforesaid.
7. A resolution shall be decided by majority vote. The entry in the minutes of the meeting of that declaration shall be conclusive evidence of the result of the resolution. In the event of an equality of votes, the Chairman has the casting vote. A member of the AC who has an interest or is involved directly or indirectly in any matter under consideration by the meeting, shall abstain from deliberating and voting.
8. A resolution in writing signed by simple majority of the AC members shall be valid and effective for all purposes as a resolution passed at a meeting of the AC duly convened, held and constituted. Any such resolution may be contained in a single document or may consist of several documents all in the like form signed by one or more members. Any such document may be accepted as sufficiently signed by AC members if transmitted to the Company by any technology purporting to include a signature and/or electronic or digital signature of the AC members.



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**RIGHTS OF THE AUDIT COMMITTEE**

In carrying out its duties and responsibilities, the AC will:

- (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 Company;
- (d) have direct communication channels with the External Auditors and person(s) carrying out the Internal Audit Function or activity (if any);
- (e) be able to obtain independent professional or other advice; and
- (f) be able to convene meetings with External Auditors, the Internal Auditors or both, excluding the attendance of other Directors and employees of the Company, whenever deemed necessary.
- (g) evaluate the performance of External Auditors and Internal Auditors.

**FUNCTIONS OF THE AUDIT COMMITTEE**

1. The AC shall, amongst others, discharge the following functions to review:
  - (a) the Quarterly Results and year-end Financial Statements, prior to the approval by the Board of Directors, focusing particularly on:
    - i) the going concern assumption;
    - ii) the changes in or implementation of major accounting policy changes;
    - iii) the significant judgement made by Management;
    - iv) the significant and unusual events; and
    - v) the compliance with accounting standards and other legal requirements.
  - (b) Related Party Transactions (“RPTs”) and Recurrent Related Party Transaction (RRPT”) to be entered into are:
    - (i) at arms’s length;
    - (ii) on normal commercial terms;
    - (iii) on terms not more favourable to the related party than those generally available to the public;
    - (iv) not detrimental to the minority shareholders; and
    - (v) in the best interest of the Group.
  - (c) To ensure that the Group has adequate procedures and processes in place to monitor and track related party transactions and to review these processes periodically.
  - (d) To review and report to the Board of Directors, any COI or potential COI situations that arose, persist or may arise within the Company and/or Group (applies to all Directors and Employees of the Group) including any transaction, procedure or



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course of conduct that raises questions or management integrity, together with the measures taken to resolve, eliminate, or mitigate such conflicts.

In reviewing the COI, the AC should consider the following factors:

- The nature and potential duration of COI situations, and the impact on the Group; and
  - Controls in place/corrective actions to be taken – to ensure that the Conflicted Director or Conflicted Employee does not abuse his or her power to gain an unfair advantage.
- (e) with the External Auditors the Audit Plan, Audit Report, their evaluation of the system of Internal Controls, their letter to management and management's response and a clear and direct line of communication between the Board and the External Auditors through meetings and discussions.
- (f) the adequacy and effectiveness of the internal control system.
- (g) the Group risk management report and the risk management policies and practices of the Group to ensure their effectiveness.
2. Assess the suitability, objectivity and independence of the external auditors on an annual basis based on the policies and procedures that have been established and the annual performance evaluation of the external auditors undertaken by the AC. The policies and procedures must include among others consideration on:-
- (a) the criteria to guide decisions on the appointment and re-appointment of the external auditor. The criteria should include an assessment of the competence, audit quality and resource capacity of the external auditor in relation to the audit. The assessment should also consider information presented in the Annual Transparency Report of the audit firm. If the Annual Transparency Report is not available, the AC may engage the audit firm 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;
  - (b) the appropriateness of audit fees to support a quality audit;
  - (c) to establish policies governing the circumstances under which contracts for the provision of non-audit services can be entered into and procedures that must be followed by the external auditors;
  - (d) requirement where non-audit service fees constitute 50% or more of the total amount of audit fees paid to their external auditors, to be approved by the AC before they rendered by the external auditor and its affiliates while taking into account the nature and extent of the non-audit services and the appropriateness of the level of fees;



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- (e) requirement to obtain written 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; and
  - (f) the conduct of an annual evaluation on the performance of the external auditor and undertaking follow-up measures, where required.
3. In respect of the Internal Audit Function:
- (a) to review the adequacy of the scope, functions, competency and resources of the Internal Audit Function and that it has the necessary authority to carry out its work;
  - (b) to review the Internal Audit Plan and the results of the Internal Audit processes where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Function;
  - (c) review the appraisal or assessment of the performance of the internal audit function on an annual basis;
  - (d) review the re-appointment of the Internal Auditors;
  - (e) review any special audit which the AC deems necessary;
  - (f) to ensure that the Internal Audit Function is independent of the activities it audits and free from interference in determining the scope of internal audit, performing work and communicating results;
  - (g) to ensure the internal audit function reports directly to the AC;
  - (h) to review the adequacy and appropriateness of Anti-Bribery and Anti-Corruption Policy, and Whistleblowing Policy, including the process and procedures, when necessary; and
  - (i) if the Internal Audit Function is performed in-house:
    - (i) to approve any appointment or termination of senior staff members of the Internal Audit Function; and
    - (ii) to be informed of any resignation of internal audit staff member and provide the resigning staff member an opportunity to submit his reasons for resigning.
4. To promptly report such matter to the Bursa Malaysia Securities Berhad if the AC is of the view that the matter reported by it to the Board of Directors has not been satisfactorily resolved resulting in a breach of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.



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5. In the event that non-audit fees paid to the Company's External Auditors, or a firm or corporation affiliated to the External Auditors' firm are significant (i.e. constitute 50% of the total amount of audit fees paid to the Company's External Auditors) the Company is required to seek for AC's approval and state the details on the nature of non-audit services rendered in the AC Report.
6. To carry out such other functions as may be agreed to by the AC and the Board of Directors.
7. To assess the suitability, objectivity and independence of the external auditor to safeguard the quality and reliability of audited financial statements according to policies and procedures.

**REVIEW OF THE WRITTEN TERMS OF REFERENCE**

This Terms of Reference will be reviewed periodically or as and when required by the AC and recommendation be made to the Board for approval on any revision.

The written Terms of Reference will be made to public on the Company's website at [www.metrod.com](http://www.metrod.com)