

**SALCON BERHAD**  
**TERMS OF REFERENCE FOR AUDIT COMMITTEE**

**Composition**

1. The Audit Committee shall be appointed by the Board from among its Directors (except for alternate directors) who fulfills the following requirements:
  - a. the Audit Committee shall comprise of no fewer than three (3) members;
  - b. all members of the Audit Committee shall be non-executive directors, with a majority of them being independent directors; and
  - c. at least one member of the Audit Committee:
    - (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 3 years' working experience, and:
      - aa. he must have passed the examinations specified in Part I of the 1<sup>st</sup> 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 1<sup>st</sup> Schedule of the Accountants Act, 1967.
    - (iii) shall fulfill such other requirements as prescribed or approved by Bursa Securities Malaysia Berhad ("Bursa Securities").
2. No alternate director of the Board shall be appointed as a member of the Audit Committee.
3. The members of the Audit Committee shall elect a chairman from among their number who shall be an independent director.
4. The Board shall within three (3) months of a vacancy occurring in the Audit Committee which result in the non-compliance of paragraphs 1 and 3 above, appoint such number of new members to fill the vacancy.
5. The Board shall review the term of office and performance of the Audit Committee and each of its members annually.

## **Rights**

The Audit Committee shall, in accordance with the procedure 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 Company and Group;
- d. have direct communication channels with the External and Internal Auditors, as well as employees of the Group;
- e. be able to obtain independent professional or other advice; and
- f. meetings with the external auditors at least twice a year, excluding the attendance of other Directors and employees of the Group.

## **Functions**

The functions of the Audit Committee shall include a review of the following and report the same to the Board:

### Governance

- a. the Management's compliance with applicable laws and regulations, established plans, controls, policies and procedures.
- b. any related party transactions and conflict of interest situation that may arise within the Group including any transaction, procedure or course of conduct that raises questions of management integrity.
- c. procedures in place to ensure that the Group complies with the Companies Act, 2016, Bursa Securities Listing Requirements and other legislative or reporting requirements.

### Financial Reporting

- a. the quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on:
  - i. changes in or implementation of major accounting policy changes;

- ii. significant matters highlighted including financial reporting issues, decision made by management, unusual events or transactions. ;
- iii. compliance with applicable financial reporting standards and other legal requirements; and
- iv. the going concern assumption.

### External Audit

- a. Audit Committee has the responsibility for the appointment, remuneration and removal of external auditor. 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: -
  - (i) to identify the audit firms who meet the criteria for appointment and to request for their proposals of engagement for consideration;
  - (ii) to assess the proposals received and shortlist the suitable audit firms;
  - (iii) to meet and/or interview the shortlisted candidates;
  - (iv) may seek the assistance of the Chief Financial Officer and / or Senior Management to perform items (i) to (iii) above;
  - (v) to recommend the appropriate audit firm to the Board for appointment as external auditors; and
  - (vi) 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.
- b. The independence of external auditor is essential to the provision of an objective opinion on the truth and fairness of the financial statements. The Audit Committee is to ensure 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 a 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.

- c. The external auditor 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 auditor. 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.

- d. The Company recognizes 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 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.

- e. Former key audit partner shall observe a cooling-off period of at least three years before being appointed as a member of the Committee.
- f. The external auditor must provide an annual declaration to the Committee confirming:
  - (i) the nature of any non-audit services provided; and
  - (ii) auditor has maintained its independence in accordance with relevant legislation and professional accounting standards.
- g. 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: -
  - quality of service;
  - sufficiency of resources;
  - communication and interaction; and
  - independence, objectivity and professional skepticism.
- h. The Committee may also request the Chief Financial Officer and/or Senior Management to perform the annual assessment of the external auditors.

#### Internal Audit

- a. the adequacy of the scope and functions, competency and resources required for the Internal Audit function and the authority necessary to carry out its work.

- b. the internal audit program, processes and the results of the internal audit work, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the Internal Audit function.
- c. pertinent audit findings and the management's responses with the attendance of management, follow up on previous year's audit findings and the status on implementation of applicable recommendations.
- d. approve any appointment or termination of senior staff members of the internal audit function;
- e. take cognizance of resignations of internal audit staff members and provide the resignation staff member an opportunity to submit his reasons for resigning.
- f. any appraisal or assessment of the performance of the members of the internal audit function.
- g. the adequacy and integrity of internal control and risk management system, management information system, and the internal auditors and/or external auditors' evaluation of the said system.

#### ESOS

- a. verifying the allocation of options under the Employee Share Option Scheme (ESOS) as compliant with the disclosed criteria for allocation of options, at the end of each financial year, if applicable.

#### Other Matters

- a. Any other matters as may be directed by the Board from time to time.

#### **Meetings**

Meetings of the Audit Committee shall be held not less than four (4) times a year. The external auditors may request for a meeting if they consider that is necessary.

The Chairman shall convene a meeting whenever any member of the Audit Committee requests for a meeting by giving not less than three (3) clear days notice thereof unless such requirement is waived by all members. Written notice of the meeting together with the agenda shall be given to the members where applicable. However, consent from members who are overseas is not required.

The quorum for a meeting for the Audit Committee shall be two (2) provided always that the majority of members present must be independent directors.

Other Board members and employees may attend any particular meeting only at the Audit Committee's invitation.

The Chairman shall not have a casting vote.

The Company Secretary shall be the Secretary of the Audit Committee.

### **Reporting Procedures**

The Secretary shall maintain minutes of the proceedings of the meetings of the Audit Committee and circulate such minutes to all members of the Board. Key issues discussed shall be reported by the Chairman of the Audit Committee to the Board.