



NPC RESOURCES BERHAD

(Bursa Stock Code: 5047)

Audit Committee Terms of reference (updated 20 April 2018)

The Audit Committee is governed by the following terms of reference:

1. Composition of the audit committee

The Audit Committee shall be appointed by the Board of Directors from among their numbers and shall comprise at least three directors, all must be non-executive directors with a majority of them shall be independent of other fellow directors, substantial shareholders, senior management and operating executives and unencumbered by any relationships that might, in the opinion of the Board of Directors, be considered conflict of interest. The members of the Audit Committee shall elect a chairman from among themselves who shall be an independent director.

All members of the audit committee should be financially literate and at least one member of the audit committee:-

- (a) must be a member of the Malaysian Institute of Accountants (MIA); or
- (b) if he is not a member of the MIA, he must have at least 3 years' working experience and:-
 - (i) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - (ii) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or
 - (iii) fulfills such other requirements as prescribed or approved by Bursa Malaysia.

No alternate director shall be appointed as a member of the audit committee.

(New updates!) and provided, further, prior appointment a former key audit partner as a member of the audit committee, he/she is subject to observe a cooling-off period of at least 2 years before the appointment.

2. Authority

The Audit Committee is authorised by the Board of Directors to:

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



Audit Committee Terms of reference (updated 20 April 2018)

3. Duties

The duties of the Committee should include the following:

- (a) to recommend the nomination of a person or persons as external auditors, and to consider the audit fee and any questions of re-appointment, resignation or dismissal of external auditors;
- (b) to assess the suitability, objectivity and independence of external auditors by reviewing the terms of engagement for the services rendered by them (enhanced by *No. 7 - External Auditor Assessment*);
- (c) to discuss with the external auditors before audit commences, the nature and scope of the audit contained in the audit plan, and ensure coordination where more than one audit firm is involved;
- (d) to review the assistance given by the Company and its officers to the external and internal auditors;
- (e) to review the adequacy and the integrity of the Group's internal control systems and management information systems with the external auditors;
- (f) to review the quarterly and year-end financial statements of the Company prior to the approval by the Board; focusing particularly on:
 - (i) any changes in or implementation of major accounting policies and practices;
 - (ii) significant and unusual events;
 - (iii) significant adjustments arising from the audit;
 - (iv) the going concern assumption; and
 - (v) compliance with applicable Financial Reporting Standards in Malaysia and other legal requirements;
- (g) to discuss problems and reservations arising from the interim and final audits, and any matter the auditors may wish to discuss (in the absence of management where necessary);
- (h) to review the external auditors' audit report, management letter and management's response;
- (i) to perform the following in respect of the internal audit function:
 - (i) 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;
 - (ii) review the internal audit program, processes and results of the internal audit program, process or investigation undertaken and where necessary ensure that appropriate actions taken on the recommendations of the internal auditors;
 - (iii) review any appraisal or assessment of the performance of the internal audit function;
 - (iv) approve any appointment or termination of internal auditors; and
 - (v) inform itself of resignation of internal auditors and provide the resigning internal auditors an opportunity to submit reasons for resigning;



Audit Committee Terms of reference (updated 20 April 2018)

3. Duties (continued)

- (j) to consider any related party transactions and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity;
- (k) to consider the major findings of internal investigations and management's response; and
- (l) to report the above to the Board and consider other topics as defined by the Board.

4. Quorum and procedures for meetings

The Audit Committee meetings shall not be less than four times a year. In addition, the Chairman may call for additional meetings at any time at the Chairman's discretion.

Representatives of external auditors may be required to be in attendance at meetings where matters relating to the audit of the statutory accounts are to be discussed. However, at least twice a year, the Audit Committee shall meet with the external auditors without any executive Board Members present, if deemed necessary.

The Committee shall meet at least once annually with the internal auditors to discuss the internal audit findings for the financial year without any executive Board Members present, if deemed necessary.

Other appropriate officers of the Group may be invited to attend, except for those portions of the meetings where their presence is considered inappropriate, as determined by the Chairman of the Audit Committee.

The quorum for the meeting shall be any two members, one of whom shall be an independent director.

The Company Secretaries shall be Secretaries to the Audit Committee. The Secretaries in conjunction with the Chairman, shall draw up agenda, which shall be circulated together with the relevant support papers, at least one (1) week prior to each meeting to the members of the Committee.

The Committee shall regulate the manner of proceedings of its meetings, having regard to normal conventions on such matter.

Minutes of each meeting shall be kept and distributed to each member of the Audit Committee. The Audit Committee Chairman shall report on each meeting to the Board of Directors.



NPC RESOURCES BERHAD

(Bursa Stock Code: 5047)

Audit Committee **Terms of reference (updated 20 April 2018)**

5. Retirement and resignation

In the event of any vacancy in an audit committee resulting in the non-compliance of subparagraphs 15.19 of Bursa Malaysia Listing Requirements, the vacancy must be filled within 3 months.

6. Review of the audit committee

The Board of Directors must review the term of office and performance of the Audit Committee and each of its members annually to determine whether such audit committee and members have carried out their duties in accordance with their terms of reference.

7. **External Auditor Assessment (New! 20 April 2018)**

(a) Introduction

The Board of Directors recognises that the external auditor plays a vital role in the process of accountability for shareholders and the effective functioning of the capital market by the provision of consistent and reliable financial reporting.

The Audit Committee is assisting the Board's oversight function in ensuring the integrity of NPC Group's financial statements as well as in engaging and overseeing the external auditor. The Committee is responsible for reviewing, assessing and monitoring the performance, suitability and independence of external auditors.

(b) Objective

The objective of this External Auditor Policy is to outline the guidelines and procedures for the Audit Committee to review, assess and monitor the performance, suitability and independence of NPC Group's External Auditor as a measure for ensuring financial statements are a reliable source of information.

(c) Selection and Appointment

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 appoint or re-appoint the external auditors of the Company for each financial year. The Board will conduct said appointment or re-appointment at each Annual General Meeting, and the external auditors so appointed shall, hold office until the conclusion of the next Annual General Meeting of the Company.



NPC RESOURCES BERHAD

(Bursa Stock Code: 5047)

Audit Committee Terms of reference (updated 20 April 2018)

(c) Selection and Appointment (continued)

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) the Committee to identify the audit firms who meet the criteria for appointment and to request for their proposals of engagement for considerations;
- (ii) the Committee will assess the proposals received and shortlist the suitable audit firms;
- (iii) the Committee will meet and/or interview the shortlisted candidates;
- (iv) the Audit Committee may delegate or seek the assistance of the Chief Financial Officer to perform items (i) to (iii) above;
- (v) the Committee will 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.

Selection Criteria:

The Audit Committee will give due consideration to the following criteria when selecting preferred External Auditor for recommendation to the Board:-

- (i) Approach to business and operations
 - Business model and governance of the audit firm
 - Internal partner firm processes
 - Audit firm partner rotation and succession planning
- (ii) Audit ability and approach
 - Skills and knowledge, experience, expertise, qualifications and training of the proposed external audit team
 - Proposed methodology
 - Areas that will receive primary focus and the related audit approach
 - Comprehensive work plan
 - Use of associated or affiliated member firm personnel and third-party experts
- (iii) Business and industry understanding
 - Audit firm and team kept up-to-date with latest auditing, accounting and business regulations, or any other related legalities
- (iv) Industry-specific experience
- (v) Communication strategy
 - Additional internal status report



Audit Committee Terms of reference (updated 20 April 2018)

(c) Selection and Appointment (continued)

Selection Criteria (continued):

- (v) Communication strategy (continued)
 - Policy regarding the availability of partners and managers for miscellaneous telephone inquiries and short meetings throughout the year
 - Means to ensure the timeliness of the information
- (vi) Reputation
 - Application of corporate governance
 - Good ethical reputation
 - References
- (vii) Evidence of audit quality
 - Within the audit firm: review of the system of internal quality assurance
 - External information: review of the auditor's/audit firm's specific reports
- (viii) Interview with the individual auditor/audit engagement partner
- (ix) Auditor's/audit firm's insurance coverage
- (x) Price
 - 'Value for money'
 - The availability of key team members
 - The proposed audit team personnel resources, their experience, expertise, qualifications and training
 - The allocation of personnel, i.e. hours to be spent allocated to each type and level of qualified resource
 - Audit team member relationship management and interpersonal skills
- (xi) Capacity for innovation
 - Ability to improve the audit processes, e.g. using IT tools
 - Tools to be more efficient and effective in the audit work

(d) Independence Assessment

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 under 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.

In discharging this duty, the Committee shall carry out an annual evaluation of the external auditor which shall encompass an assessment of the qualifications and performance of the auditor; the quality and candour of the auditor's communications with the Committee and the Company; and the auditor's independence, objectivity, and professional scepticism.



Audit Committee **Terms of reference (updated 20 April 2018)**

(d) Independence Assessment (continued)

The external auditors are precluded from providing any services that may impair their independence or conflict with their role as external auditors. The Committee shall obtain a 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 Committee may also request the Chief Financial Officer (or equivalent) and/or Head of Internal Audit to perform the annual assessment of the external auditor.

(e) Independence

The Audit Committee shall review the independence of the external auditor annually. The external auditor must be independent from NPC Group and also be seen to be independent from NPC Group. Specifically, the external auditor will need to satisfy the Audit Committee that:-

- (i) no services will be provided that will result in a conflict of interest;
- (ii) any services provided additional to that of the audit function involving non-audit services, would not have a material bearing on the audit and would not involve the firm auditing their own work;
- (iii) the audit firm has an audit personnel rotation policy, including lead and signing partners, requiring rotation at least every five years in compliance with the requirements of the Malaysia Institute of Accountants; and
- (iv) there will be no situations where the auditor assumes the role of management or where the auditor is placed in the role of advocate for the Group.

In avoidance of doubt, the Audit 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.

(f) Non-Audit Services

The External Auditor can be engaged to perform non-audit services provided such services provided do not impair, or appear to impair the auditor's independence or objectivity. This excludes audit related work in compliance with statutory requirements. The prohibition of non-audit services is based on three (3) basic principles as follows:-

- (i) external auditors cannot function in the role of Management;
- (ii) external auditors cannot audit their own work; and
- (iii) external auditors cannot serve in an advocacy role of the Group.



Audit Committee **Terms of reference (updated 20 April 2018)**

(f) Non-Audit Services (continued)

The external auditor shall also observe and comply with the By-Laws of the Malaysian Institute of Accountants in connection with the provision of non-audit services, which also prohibits the provision of certain services including the following:

- (i) Accounting and bookkeeping services;
- (ii) Valuations services;
- (iii) Internal audit services;
- (iv) IT systems services;
- (v) Litigation support services;
- (vi) Recruitment services; and
- (vii) Corporate finance services.

All engagement of the external auditor to provide non-audit services is subject to the approval/endorsement of the audit committee. Management shall also obtain written assurance from the external auditor that the independence of the external auditor will not be impaired by the provision of non-audit services.

(g) Annual Reporting

The external auditor shall:

- (i) Issue an annual audit plan for review and discussion with the Audit Committee;
- (ii) At the conclusion of the audit review, shall discuss findings, significant audit weakness and audit related recommendations with the Audit Committee and Senior Management; and
- (iii) Provide a management letter to the Audit Committee upon completion of the annual audit.

(h) Review of the External Auditor Independence

The Board and the Audit Committee will review the External Auditors Assessment periodically to ensure that it continues to remain relevant and appropriate.