



TERMS of REFERENCE for

AUDIT COMMITTEE

MSM MALAYSIA HOLDINGS BERHAD

Terms of Reference for Audit Committee
MSM Malaysia Holdings Berhad



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1. INTRODUCTION

- 1.1 This Audit Committee Terms of Reference ("TOR" or the "Terms of Reference") sets out the requirements of the Board of Directors of MSM Malaysia Holdings Berhad for the establishment of an Audit Committee, and the delegation of responsibilities to such committee, as at the date hereof.
- 1.2 Unless otherwise stated, the following shall apply:
 - 1.2.1 "the Company" or "MSM" refers to MSM Malaysia Holdings Berhad;
 - 1.2.2 "MSM Group" or 'the Group' refers to MSM Malaysia Holdings Berhad and its Group of Companies¹;
 - 1.2.3 "the Board" refers to the Board of Directors of the Company; and
 - 1.2.4 "AC" or the "Committee" refers to the Audit Committee of MSM.
- 1.3 Senior Management refers to the direct reports of the President/Group Chief Executive Officer which includes the Group Chief Financial Officer, Chief Technical Officer, Chief Operating Officer and Subsidiaries Chief Executive Officer.
- 1.4 In view of the mandatory nature of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (the "Listing Requirements"), the Terms of Reference aims to guide MSM's AC with respect to relevant provisions of the Listing Requirements. In addition, the Terms of Reference also recognizes and aims to adopt related better practices and guidance from the following documents:
 - 1.4.1 The Malaysian Code on Corporate Governance 2012 ("MCCG 2012"), which provides Principles and Recommendations promulgating good corporate governance practices and accountability of companies and their Boards of Directors; and
 - 1.4.2 The Corporate Governance Guide –Towards Boardroom Excellence, 2nd Edition on ("the Guide ") issued by Bursa Malaysia Securities Berhad ("Bursa Malaysia") in 2013, which is designed to help directors understand their roles and duties to the company and its stakeholders.

2. PURPOSE

- 2.1 The AC TOR is established pursuant to the Listing Requirements and is approved by the Board.
- 2.2 The purpose of the committee, set up under the Listing Requirements, is to assist the Board in fulfilling its roles and responsibilities in regards to:

¹ MSM Group includes MSM's operating subsidiaries, associates and jointly-controlled entities in which MSM holds a controlling interest, as established under the corporate structure of MSM Malaysia Holdings Berhad

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- 2.2.1 Assessing the risks and control environment;
 - 2.2.2 Overseeing financial reporting;
 - 2.2.3 Evaluating the internal and external audit process and outcome;
 - 2.2.4 Reviewing conflict of interest situations and related party transactions; and
 - 2.2.5 Undertake any such other functions as may be determined by the Board from time to time.
- 2.3 The existence of the Committee does not diminish the Board's ultimate statutory and fiduciary responsibility for decision – making relating to the functions and duties of the Committee.

3. MEMBERSHIP

- 3.1 The Committee members shall be appointed by and from the Board of MSM and shall comprise of not less than three (3) members.
- 3.2 All the members of the committee must be Non-Executive Directors and a majority of whom must be Independent directors free from any business or other relationship that, in the opinion of the Board, would materially interfere with the exercise of his or her independent judgment as a member of the Committee.
- 3.3 No Alternate Director shall be appointed as a member of the Committee
- 3.4 At least one member of the Committee:
 - 3.4.1 must be a member of the Malaysian Institute of Accountants; or
 - 3.4.2 if he/she is not a member of the Malaysian Institute of Accountants, he/she must have at least 3 years relevant working experience and:
 - i. he/she must have passed the examination specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - ii. he/she 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
 - 3.4.3 fulfills such other requirements as prescribed by Bursa Malaysia.
- 3.5 All members of the Committee shall be financially literate
- 3.6 In the event a member of the Committee resigns, dies or for any other reason ceases to be a member, resulting in the above-mentioned Committee membership conditions not being fulfilled, the Board shall within three (3) months of that event appoint such number of new members as may be necessary to fulfill the requirements.

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4. QUORUM

- 4.1 In order to form a quorum for the Committee meeting, at least two (2) of the committee members must be present at the meeting, with the majority of Independent Non-Executive Directors.
- 4.2 In the absence of the Chairman of the Committee, the members present shall elect a Chairman for the meeting, who shall be an Independent Non-Executive Director from amongst the members present.

5. AUTHORITY

- 5.1 The Board has authorised the committee, within the scope of its duties and responsibilities set out in this TOR to:
 - 5.1.1 Investigate any activity or matter within its Term of Reference;
 - 5.1.2 acquire the resources which are required to perform its duties;
 - 5.1.3 have full and unrestricted access to anyone in the Group in order to conduct any investigation and any information pertaining to the Group
 - 5.1.4 have full and unrestricted access to information pertaining to the Group; their records, properties and personnel.
 - 5.1.5 maintain direct communication channels with the external auditors and the MSM Chief Internal Auditor (or his/her equivalent), as well as the Chairman of the Whistleblowing Committee;
 - 5.1.6 obtain independent professional or other advice to assist the Committee or any individual member of the Committee in performing of its responsibilities and duties, at the expense of the Company and in accordance with the delegation of authority of the Committee;
 - 5.1.7 convene meetings with external auditors, internal auditor or both without the presence of other directors and employees of the Group, whenever deemed necessary; and
 - 5.1.8 meet exclusively among itself, whenever deemed necessary.
- 5.2 The Committee may empower one or more its members to meet or communicate with the external auditors and/or internal auditors independently.

6. CHAIRMAN OF THE COMMITTEE

- 6.1 The Chairman of the Committee must be an Independent Non-Executive Director and shall be appointed by the members of the Committee.

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7. SECRETARIES OF THE COMMITTEE

- 7.1 The MSM Company Secretary and the MSM Chief Internal Auditor shall be the Secretaries of the Committee.
- 7.2 The Secretaries of the Committee shall be present record proceedings of the Committee meetings.
- 7.3 The Secretaries of the Committee shall have the following responsibilities:
 - 7.3.1 Ensure meetings are arranged and held accordingly;
 - 7.3.2 Assist the Chairman of the Committee in planning and drafting the Committee's activities for the financial year;
 - 7.3.3 Draw up meeting agenda in consultation with the Chairman of the Committee, and circulate the agenda, together with the relevant papers, at least seven (7) days prior to each of the Committee meeting;
 - 7.3.4 Ensure structured communication (i.e. formal and prompt reporting) between the Board and the Committee;
 - 7.3.5 Ensure proceedings of meetings are minuted and endorsed by the Chairman of the Committee before disseminating them to all Board members; and
 - 7.3.6 Ensure the Committee's recommendation presented to the Board are supported by explanatory papers, including report of the Committee or minutes that explains the rationale of the Committee's recommendations.

8. RESPONSIBILITIES AND DUTIES

- 8.1 The key responsibilities of the Committee are as follows:
 - 8.1.1 Assessing the risks and control environment
 - i. To review the sufficiency and effectiveness of the Group's overall enterprise risk management framework, strategies, policies and systems; and
 - ii. To assess the effectiveness of the system of internal control vis-à-vis the risks, control environment and compliance requirements of the Group, based on the results of the external and internal audits and assurances from respective responsible persons.
 - 8.1.2 Oversee financial reporting
 - i. To review the quarterly results and the year-end financial statements of the Group prior to approval by the Board, focusing particularly on
 - a. Changes in or implementation of major accounting policies;

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- b. significant and unusual events and adjustments; and
 - c. compliance with the applicable financial reporting standards and other legal requirements;
 - ii. To review and recommend any changes in accounting policies or improvement in the system of internal control, where deemed necessary; and
 - iii. To review the Audit Committee Report for inclusion in the Company's Annual Report and recommend to the Board for approval.
 - 8.1.3 Evaluating the internal and external audit process and outcome
 - i. To review with the external auditors the following:
 - a. their audit plan and ensure coordination where more than one audit firm is involved;
 - b. their evaluation of the system of internal controls;
 - c. their audit report;
 - d. problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of management where necessary);
 - e. the management letter and management's response; and
 - f. the adequacy of assistance given by Group employees to the external auditor.
 - ii. To review any letter of resignation from the external auditors and report the same to the Board;
 - iii. To review whether there is any reason that the external auditor is not suitable for re-appointment, and make relevant recommendation to the Board;
 - iv. To recommend the nomination of a person or persons as external auditors, including matters relating to the audit fee;
 - v. To ensure the proper policies and procedures are established and to assess the suitability and independence of external auditors, including obtaining written assurance from external auditors confirming they are, and have been, independent throughout the conduct of audit engagement in accordance with the Terms of Reference of all relevant professional and regulatory requirements;
 - vi. To set policy on non-audit services which may be provided by the external auditors, and conditions and procedures which must be adhered to by the external auditors in the provision of such services;

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- vii. to review engagement of non-audit services by the external auditors to ensure that their independence is maintained; and
 - viii. In relation to the Group's internal audit function, to undertake the following:
 - a. review the adequacy of the scope, functions, competency, resources and budget of the Group's internal audit function and that it has the necessary authority to carry out its work, and report or make relevant recommendations to the Board;
 - b. approve the internal audit plan and review the results of the internal audit plan or investigation undertaken and whether or not appropriate action is taken on the recommendations of the Group's internal audit function, and report or make relevant recommendations to the Board;
 - c. review the effectiveness of the Group's internal audit function including compliance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and make recommendations necessary for improvement of the internal audit function;
 - d. review any appraisal of or assessment of the performance of the Group's internal function;
 - e. approve any appointment or removal of the MSM Chief Internal Auditor;
 - f. appraise the performance and approve the remuneration (including annual increment and bonus) of the MSM Chief Internal Auditor
 - g. take cognizance of resignations of the MSM Chief Internal Auditor and provide the resigning individual an opportunity to submit his/her reasons for resigning.
- 8.1.4 Reviewing conflict of interest situations and Related Party Transactions (including Recurrent Related Party Transactions)
- i. To review any conflict of interests situation and related party transaction that may arise within the Group including any transaction, procedure or course of conduct that raises questions of management integrity;
 - ii. In respect of related party transaction, including recurrent related party transactions to:
 - a. ensure that the Group has adequate procedures and processes to identify, and where relevant, monitor and track related party transactions in a timely manner, and to review these procedures and processes annually;

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- b. assess the sufficiency of the procedures, policies and terms of the related party transactions to ensure that the transactions are fair, reasonable and on normal commercial terms are not more favourable to the related party than those generally available to the public and are not detrimental to minority shareholders and in the best interest of the Group;
- c. where the related party transactions are not comparable to quotations or comparative pricing with unrelated third parties, to review the basis of the transaction price determined by the management in comparison to transactions by/to unrelated parties for substantially similar type transaction for approval by the MSM Board; and
- iii. Related party transactions and conflict of interest situations shall be a permanent agenda item of the Committee meetings.

8.1.5 Other responsibilities and duties

- i. To review arrangements by which employees may, in confidence, raise concerns about possible improprieties in financial reporting or other matters, and to ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow - up action to be taken. This would include any whistleblowing complaints and investigative reports received from the Whistleblowing Committee;
 - ii. To maintain and keep under review the whistleblowing mechanism of the Company, as well as an effective and efficient set of investigation procedures, which aims to provide protection and confidentiality;
 - iii. To consider any concerns raised by external auditors pertaining to a breach or non-performance of any requirement of any rules or matters that may materially affect the financial position of MSM Group;
 - iv. Where the AC is of the view that a matter reported by it to the Board of MSM has not been satisfactorily resolved resulting in a breach of the Listing Requirements, the Committee must promptly report such matter to Bursa Malaysia.
 - v. To undertake such other functions as may be agreed to by the AC and the Board.
- 8.2 The Committee shall ensure consistency and alignment with its Holding Company, in any framework, policies and structure relating to governance, ethics, integrity and risk management in execution of its responsibilities and duties above.
- 8.3 Holding Company's AC may be apprised of any significant issues that may have an impact on Holding Company and any other matters that are deemed necessary via Holding Company's CFO or the external auditor of MSM Group.

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9. REPORTING

- 9.1 The Committee shall regularly update the Board about its activities and make appropriate recommendation including through:
 - 9.1.1 Copies of minutes of each meeting of the Committee supported by explanatory papers circulated to all Board members once endorsed by the Chairman of the Committee and;
 - 9.1.2 The Chairman of the Committee drawing to the Board's attention any matter of major importance.
- 9.2 At the discretion of the Chairman of the Committee and members of the Committee, any relevant matters deemed to be of major importance shall be referred to the Board for its attention.
- 9.3 The Committee shall be responsible in ensuring that the Company discloses in its annual report an Audit Committee Report for the financial year, pursuant to the Listing Requirements.

10. MEETINGS ADMINISTRATION

- 10.1 **Frequency and attendance**
 - 10.1.1 Meetings shall be conducted at least four (4) times annually or more frequently as circumstances dictate.
 - 10.1.2 The Chairman of the Committee, in consultation with Secretaries of the Committee, shall determine the frequency of the Committee meeting and discuss the schedule of meetings with members of the Committee.
 - 10.1.3 In addition to the regular scheduled meeting, the Chairman of the Committee shall call a meeting of the Committee if so requested by any member of the Committee or by the Chairman of the Board.
 - 10.1.4 Resolution of the members of the Committee at a meeting or adjourned meeting of the Committee shall be adopted by a majority of votes of all members present. In the event matters requiring the Committee's decision arise between meetings, such matters shall be resolved through Directors' Circular Resolutions (DCRs) which shall be supported by relevant papers setting out details of the subject matters. The members

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of the Committee may obtain more information from Management and express their view points by facsimile, electronic mail or any other means of telecommunication before arriving at a decision on the subject matter. All such resolutions shall be signed by all the members of the Committee and shall be submitted for confirmation on at a meeting of the Committee following the passing of the Directors' Circular Resolutions (DCRs).

- 10.1.5 The Committee meeting shall normally be conducted in a face-to-face manner to enable effective discussion. Nevertheless, if a member of the Committee is unable to be physically present, the member may choose to participate via video-conferencing or tele-conferencing, or other appropriate means as determined by the Committee.
- 10.1.6 The Group President/CEO, the MSM Chief Financial Officer and the MSM Chief Internal Auditor may attend the meetings upon invitation of the Committee. Participation from the Group President/CEO, the MSM Chief Financial Officer or the MSM Chief Internal Auditor may not be required for the full duration of the meeting.
- 10.1.7 The Committee may also invite any of the Senior Executives of the subsidiaries to attend its meetings to provide any clarification on matters related to the subsidiaries.
- 10.1.8 Other members of the Board or Top Management or any other employee may be invited to the meeting for a specific agenda or clarification on matters for discussion.
- 10.1.9 The Committee shall meet with the external or internal auditors without executive board members and management present at least twice a year.
- 10.1.10 Any of the Committee member or invited participant with conflicting interest shall abstain from the said discussion and must not be physically present during the discussion. A Committee member shall abstain and excuse himself/herself from the meeting during discussions or deliberations of any matter which gives rise to an actual or perceived conflict of interest situation(s) for him/her, including matters regarding related party transactions.
- 10.1.11 The Group Chief Financial Officer of the Holding Company may attend the AC meetings upon invitation of the Committee.
- 10.1.12 The Chairman of the Committee shall exercise the right to request those who are in attendance to leave the room if matters discussed are confidential or may be impaired due to the presence of individuals concerned.

10.2 Notice and agenda

- 10.2.1 Proper notice shall be issued for any of the Committee meeting and the Chairman of the Committee shall ensure that proper agenda is prepared for the Committee meeting.
- 10.2.2 The agenda and relevant papers for the Committee meeting must be issued at least seven (7) days prior to each of the Committee meeting

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10.3 Minutes of the meeting

- 10.3.1 The discussion and conclusions of the Committee meetings shall be minuted, in a clear, accurate, consistent, complete and timely manner;
- 10.3.2 The minutes shall be entered into the minutes Register kept by the MSM Company Secretary together with attendance sheet;
- 10.3.3 Keeping of the minutes must comply with the requirements of the relevant laws and regulations, e.g. Companies Act, 1965 and Income Tax Act 1967; and
- 10.3.4 Reproduction of any part of the minutes can only be performed through/by the MSM Company Secretary.

11. COMMITTEE'S PERFORMANCE

- 11.1 The Board shall evaluate annually the Committee's performance and extent to which the Committee has met the requirements of its Terms of Reference, including the terms of office and performance of the Committee and each of its members. This performance assessment may constitute a part of the annual Board Effectiveness Assessment, pertaining to the assessment of Board Committees.

12. COMMITTEE'S ETHICS AND PROCEDURES

- 12.1 All members of the Committee shall safeguard all internal communications and treat them as strictly private and confidential, and for the use of the Committee members only.
- 12.2 The Committee shall work diligently amongst the members of the Board and adhere to all applicable laws and regulations as well as the prescriptions rendered in the Directors' Code of Ethics & Conduct and the Code of Business Practice.

13. REVIEW OF TERMS OF REFERENCE

- 13.1 The Committee's Term of Reference and work plan shall be reviewed periodically, between one (1) to three (3) years as and when required, especially when there are changes to the Listing Requirements and MCCG 2012.
- 13.2 All amendments to the Terms of Reference of the Committee must be approved by the MSM Board.