



MALAYSIA STEEL WORKS (KL) BHD
(Company No.7878-V)

TERMS OF REFERENCE –
AUDIT COMMITTEE

AUDIT COMMITTEE

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1. *OBJECTIVES*

The objective of the Audit Committee is to assist the Board of Directors (“Board”) in meeting its responsibilities relating to accounting and reporting practices of the Company and its subsidiary companies.

In addition, the Audit Committee shall:-

- a) Oversee and appraise the quality of the audits conducted both by the Company's internal and external auditors;
- b) Maintain open lines of communication between the Board, the internal auditors and the external auditors for the exchange of views and information, as well as to confirm their respective authority and responsibilities; and
- c) Determine the adequacy of the Group's administrative, operating and accounting controls.

2. *COMPOSITION*

The Audit Committee shall be appointed by the Directors from among their number (pursuant to a resolution of the Board of Directors) which fulfils the following requirements:-

- a) the Audit Committee must be composed of no fewer than 3 members;
- b) All members of the Audit Committee must be non-executive directors;
- c) A majority of the Audit Committee must be independent directors; and
- d) All members of the Audit Committee should be financially literate and 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:-
 - he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act, 1967; or
 - 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) he must be a person who fulfills such other requirements as may be prescribed by or approved by the Exchange and/or such other relevant authorities from time to time.
- e) No alternate Director shall be appointed as a member of the Audit Committee.
- f) No former key audit partner shall be appointed as a member of the Audit Committee, unless he/she has observed a cooling-off period of at least two (2) years before for such appointment.

The members of the Audit Committee shall elect a chairman from among their number who shall be an independent director. The vacancy of the independent chairman of the Audit Committee must be filled within 3 months.

In the event of any vacancy in the Audit Committee resulting in the non-compliance of item 2 (a) to (d) above, the vacancy must be filled within 3 months of that event.

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

3. *FUNCTIONS*

The functions of the Audit Committee are as follows:-

- a) to review the following and report the same to the Board:-
 - i) with the external auditors, the audit plan;
 - ii) with the external auditors, his evaluation of the system of internal controls;
 - iii) with the external auditor, his audit report;
 - iv) the assistance given by the Company's employees to the external auditors; and
 - v) any related party transaction 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.
- b) To consider the appointment/re-appointment of the external auditors, the audit fee and any questions of resignation or dismissal and to carry out annual assessment on the performance and the suitability of the external auditors. In considering the appointment/re-appointment of the external auditors, to consider among others

- the adequacy of the experience and resources of the accounting firm;
- the persons assigned to the audit;
- the accounting firm's audit engagements;
- the size and complexity of the listed issuer's group being audited; and
- the number and experience of supervisory and professional staff assigned to the particular audit;

And also consider the performance of the external auditors and its independence as below:-

- i) the external auditors' ability to meet deadlines in providing services and responding to issues in a timely manner as contemplated in the external audit plan;
 - ii) the nature of the non-audit services provided by the external auditor and fees paid for such services relative to the audit fee; and
 - iii) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit arising from the provision of non-audit services or tenure of the external auditors.
- c) To discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
 - d) To review the quarterly and year-end financial statements of the Company, focusing particularly on:-
 - Any changes in or implementation of major accounting policies and practices;
 - Significant matters highlighted including financial reporting issues, significant judgments made by management, significant and unusual events or transactions, and how these matters are addressed;
 - The going concern assumption; and
 - Compliance with applicable financial reporting standards and other legal requirements;
 - e) To discuss 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);
 - f) To review the external auditor's management letter and management's response;
 - g) To discuss the contracts for the provision of non-audit services which can be entered into and procedures that must be followed by the external auditors. The contracts that cannot be entered into should include:-

- Management consulting
- Strategic decision
- Internal Audit
- Policy and Standard Operating Procedures documentation
- Accounting and book keeping services
- Valuations services
- Taxation services
- IT systems services
- Litigation support services
- Recruitment services
- Corporate finance services

In the event that the non-audit services has exceeded 50% of the total amount of fees, to consider the skills and experience of the External Auditors and other suppliers who would make it the most suitable suppliers of such non-audit services.

- h) To assess the effectiveness of internal controls by conducting the following:-
- 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;
 - Review the internal audit programme, internal audit reporting and communication flow and results of the internal audit process and where necessary, ensure that appropriate action is taken on the recommendations of the internal audit function or whether concerns, if any, identified by internal audit in its report were addressed during the financial year;
 - Review any appraisal or assessment of the performance of members of the internal audit function;
 - Approve any appointments or termination of senior staff members of the internal audit function;
 - Take cognisance of resignations of internal audit staff members (for in-house internal audit function) or change in internal audit function service provider (for outsourced internal audit function) and provide the resigning staff member/service provider an opportunity to submit his/their reasons for resigning.
- i) To consider the major findings of internal investigations and management's response;
- j) To ensure the internal audit function established is independent of the activities it audits and to identify a head of internal audit who reports directly to the Audit Committee. The head of internal audit should have the relevant qualifications and be responsible for providing assurance to the Audit Committee that the internal controls are operating effectively. The head of internal audit will be responsible for the regular review and/or appraisal of the effectiveness of the risk management, internal control, and governance processes within the Company.
- k) To consider other areas as defined by the Board; and

- l) To perform any other functions or responsibilities as may be required of them as prescribed by Bursa Malaysia Securities Berhad or any other relevant authorities from time to time.

4. *RIGHTS OF THE AUDIT COMMITTEE*

The Audit Committee shall, wherever necessary and reasonable for the Company to perform its duties, in accordance with procedure to be 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;
- d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;
- e) be able to obtain independent professional or other advice; and
- f) be able to convene meetings with the external auditors, the persons carrying out the internal audit function or activity or both excluding the attendance of the other directors and employees of the Company, whenever deemed necessary.

5. *MEETINGS*

The Audit Committee shall meet at least 4 times a year and such additional meetings as the Chairman shall decide in order to fulfil its duties. However, at least twice a year the Audit Committee shall meet with the external auditors without executive Board members present.

In addition, the Chairman may call a meeting of the Audit Committee if a request is made by any committee member, the Company's Chief Executive, or the internal or external auditors.

The Company Secretary or other appropriate senior official shall act as secretary of the Audit Committee and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it, supported by explanatory documentation to committee members prior to each meeting.

The Secretary shall also be responsible for keeping the minutes of meetings of the Audit Committee, and circulating them to committee members and to the other members of the Board.

A quorum shall consist of a majority of independent directors.

By invitation of the Audit Committee, the Company must ensure that other directors and employees attend any particular Audit Committee meeting specific to the relevant meeting.

This term of reference must be approved and adopted by the Board. The terms of reference should be assessed, reviewed and updated at least once a year or when there are changes to the Recommendation of MCCG 2017, Listing Requirements of Bursa Malaysia Securities Berhad or any other regulatory requirements. It should also be reviewed and updated when there are changes to the direction or strategies of the Company that may affect the Audit Committee's role.

Date : 23 November 2017

Amended pursuant to the Board's meeting held on 23 November 2017.