

**SMIS CORPORATION BERHAD**  
**[Registration No. 199901016957 (491857-V)]**

**Terms of Reference of the Audit and Risk Committee**

**1. Introduction**

The Audit and Risk Committee (“**ARC**” or the “**Committee**”) of SMIS Corporation Berhad (“**SMIS**” or the “**Company**”) was formed by the Board of Directors of the Company (the “**Board**”). Its primary function is to assist the Board in meeting its responsibilities for the oversight of:-

- the accounting and financial reporting process and practices;
- the system of Risk Management and Internal Control;
- the internal and external audit process; and
- the conflict of interest situations and related party transactions.

In addition, the Committee shall:

- Oversee and appraise the quality of the audits conducted both by the Company’s internal and external auditors including issues pertaining to the internal control within the Company and its subsidiaries (“**Group**”);
- 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
- Determine the adequacy of the Group’s administrative, operating and accounting controls.

**2. Composition**

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

- 2.1 the Committee must compose of not fewer than three (3) members;
- 2.2 all members of the Committee including the Chairman must be Independent Non-Executive Directors. In this respect, the Board adopts the definition of “independent directors” under the Main Market Listing Requirements (“**MMLR**”) of Bursa Malaysia Securities Berhad (“**Bursa Securities**”);
- 2.3 the Chairman of the Board shall not be a member of the ARC;
- 2.4 at least one member of the Committee:-
  - 2.4.1 must be a member of the Malaysian Institute of Accountants; or
  - 2.4.2 if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) years’ working experience and:
    - he must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountant 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

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- he must be a person who fulfils the requirements as prescribed or approved by Bursa Securities.

2.5 no alternate Director of the Board shall be appointed as a member of the Committee; and

2.6 all members of the Committee should be financially literate and are able to understand matters under the purview of the Committee including the financial reporting process. All members of the Committee should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.

The members of the Committee shall elect a chairman from among their number who shall not be the Chairman of the Board.

In the event of any vacancy in the Committee (including Chairman) resulting in the non-compliance of items 2.1 to 2.4 above, the vacancy must be filled within three (3) months of that event.

For engagement of a former partner of the external audit firm as member of the Committee, there must be a cooling-off period of at least three (3) years to be observed before being appointed as a member of the Committee.

The appointment of the Committee member terminates when the member ceases to be a Director, or as determined by the Board.

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

### **3. Chairman**

3.1 The Chairman of the ARC shall be an Independent Non-Executive Director elected amongst the members of the ARC;

3.2 In the absence of the Chairman, the members present shall elect a Chairman for the meeting from amongst themselves;

3.3 The Chairman together with other members of the ARC ensure that:-

- the ARC is fully informed about significant matters related to the Group's audit and its financial statements and addresses these matters;
- the Committee appropriately communicate the insight, views and concerns about relevant transactions and events to internal and external auditors;

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- ARC's concerns on matters that may have an effect on the financial or audit of the Group are communicated to the external auditor; and
  - there is co-ordination between internal and external auditors.
- 3.4 The Chairman should engage on a continuous basis with management, such as the Chief Executive Officer, the Chief Financial Officer/ Group Financial Controller, the internal auditors and the external auditors in order to be kept informed of matters affecting the Company.

#### **4. Quorum and Meeting Procedures**

Meetings shall be held at least four (4) times on a quarterly basis in each financial year and such additional meetings as the Chairman shall decide in order to fulfill its duties. However, at least twice (2) a year the Committee shall meet with the external auditors without the presence of the executive Board members and management.

The Chairman may call for a meeting of the Committee if a request is made by any Committee member, the Company's Chief Executive, the Senior Management or the internal or external auditors.

In order to form a quorum for the meeting, the majority of members present must be independent directors and no business shall be transacted at any meeting of the Committee unless a quorum is present.

Only members of the ARC have the right to attend Committee meetings. However, the Chief Financial Officer/Group Financial Controller, internal audit and external audit lead partner will be invited to attend meetings of the ARC on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary to be determined by the ARC Chairman.

The notice of the ARC meeting should be given in writing at least seven (7) days prior to the meeting and a well-prepared agenda papers for ARC meeting shall be sent to all members of the ARC and any other persons who may be required to attend the meeting at least five (5) business days prior to the meeting or such other period as deemed appropriate by the Committee.

The Chairman of the ARC shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities as well as on any other matter that should be brought to the Board's attention and provide recommendations of the ARC that require the Board's approval at the Board meeting.

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A member of ARC shall excuse himself/herself from the meeting during discussion or deliberations of any matter which gives rise to an actual or perceived conflict of interest situation for the member. Where this cause insufficient directors to make up a quorum, the ARC has the right to appoint another director(s) which meets the membership criteria.

The Company Secretary or his/her representative or other appropriate senior officer shall also be in attendance at each ARC meetings and responsible for keeping the minutes of meetings of the ARC and circulating them to committee members and to the other members of the Board.

A member of Committee may participate in a meeting by means of a telephone conference or video conference or any other means of audio-visual communications and the person shall be deemed to be present in person at the meeting and shall be entitled to vote or be counted in a quorum accordingly.

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

The ARC may deal with matters by way of circular reports and resolutions in lieu of convening a formal meeting. A resolution in writing, signed, approved or assented by letter, electronic mail, telegram, telex or telefax or other electronic communication by all the members of the Committee, shall be as effectual as if it has been passed at a meeting of the Committee duly convened and held. Any such resolution may consist of several documents in like form, each signed by one (1) or more committee members as may be transmitted to the Company by any technology purporting to include a signature and/or electronic or digital signature of the members of the Committee.

## **5. Secretary**

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

## **6. Functions**

The functions of the Committee are as follows:-

### **External Auditors**

6.1 To review the following and report the same to the Board:-

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- 6.1.1 the audit plan, nature, scope and plan of the audit before audit commences and ensure co-ordination where more than one audit firm is involved;
  - 6.1.2 their evaluation of the system of risk management and internal controls;
  - 6.1.3 any significant audit findings, reservations, difficulties encountered or material weaknesses reported;
  - 6.1.4 their audit report; and
  - 6.1.5 the assistance given by the Company's employees to the external auditors, including any difficulties or disputes with Management encountered during the audit;
- 6.2 To nominate and recommend the appointment/re-appointment of the external auditors, the audit fee, the terms of reference of the said appointment/re-appointment and any questions on their resignation or dismissal before making a recommendation to the Board. In determining the appointment/re-appointment of the external auditors, to consider among others<sup>1</sup>:
- (a) the adequacy of the experience, audit quality and resources capacity of the accounting firm;
  - (b) the persons assigned to the audit;
  - (c) the accounting firm's audit engagements;
  - (d) the size and complexity of the Group being audited; and
  - (e) the number and experience of supervisory and professional staff assigned to the particular audit.

The ARC is to also consider the objectivity, performance and the independence of the external auditors, *inter-alia*:-

- (i) the 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 and extent of the non-audit services provided by the external auditors and fees paid for such services relative to the audit fee;
- (iii) the information presented in the Annual Transparency Report<sup>2</sup> of the audit firm. If the audit firm is not required to issue an Annual Transparency Report, the ARC is encouraged to engage the audit firm on matters typically covered in Annual Transparency Report including the audit firm's governance and leadership structure as well as measures undertaken by the audit firm to uphold audit quality and manage risks;
- (iv) whether there are procedures 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; and
- (v) obtaining 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.

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*Notes:*

- <sup>1</sup> To the extent permissible pursuant to the applicable rules, laws and regulations of each jurisdiction in which the Group operates and the framework adopted by the Group for appointment of statutory auditors for statutory audit and non-audit services.
- <sup>2</sup> Annual Transparency Report is issued by audit firms registered with the Audit Oversight Board (AOB) where (i) the audit firms have more than 50 public interest entity (PIE) audit clients; and (ii) total market capitalisation of the audit firm's PIE clients above RM10 billion at the end of the calendar year for two (2) consecutive years.

- 6.3 To discuss with the external auditors before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firms are involved;
- 6.4 To discuss the contracts and nature for the provision of non-audit services which can be entered into by the Group with the external auditors or its affiliates and procedures that must be adhered to by the external auditors. The following contracts cannot be entered into with the external auditors:-
- Management consulting;
  - Strategic decision;
  - Policy and standard operating procedures documentation;
  - Accounting and book keeping services;
  - Valuation services;
  - Taxation services;
  - Internal audit services;
  - IT systems services;
  - Litigation support services;
  - Recruitment services; and
  - Corporate finance services.

Any exceptions to the above require the Committee and Board's approval.

In the event that the non-audit fees paid to the Company's external auditors, or a firm or corporation affiliated to the external auditors' firm are significant (e.g. exceed 50% of the total amount of audit fees paid to the Company's external auditors), to consider the skills and experience of the external auditors and other suppliers who would make it the suitable suppliers of such non-audit services.

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- 6.5 To review the quarterly and year-end financial statements of the Group and Company, focusing particularly on:-
- any changes in or implementing of major accounting policies and practices;
  - the going concern assumption;
  - integrity of financial statements;
  - compliance with accounting standards and other legal requirements; and
  - significant matters highlighted including financial reporting issues, significant judgements made by management, significant and unusual events or transactions, and how these matters are addressed.
- 6.6 To discuss problems and reservations arising from the interim and final audits, and any matter the internal and external auditors may wish to discuss (in the absence of management where necessary);
- 6.7 To review the external auditors' management letter and management's response;
- 6.8 To review the adequacy of Group's risk management framework and assess the resources and knowledge of the Management and employees involved in the risk management process;
- 6.9 To review the Group's risk profile and to determine the Company's level of risk tolerance and actively identify, assess and monitor key business risks to safeguard shareholders' investment and the Company's assets; and
- 6.10 To review the Statement on Risk Management and Internal Control for inclusion in the Annual Report.

**Internal Audit**

- 6.11 In respect of the internal audit function, the following shall be carried out to ensure the effectiveness of risk management and internal controls system:-
- Review the adequacy of the scopes, competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;
  - Review the internal audit plan, processes, the results of the internal audit assessment, its scope, implementation plan and provide appropriate guidance to ensure its effectiveness as well as investigation undertaken and whether or not appropriate action is taken on the recommendations;
  - Review any appraisal or assessment of the performance of members of the internal audit function;
  - Approve any appointments or terminations of senior auditors of the internal audit function;

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- To note the resignations of internal auditors and provide the resigning internal auditors an opportunity to submit his reasons for resigning;
  - Conduct an annual review and periodic testing of the Company's internal control and risk management framework; and
  - Prepare reports, at least once (1) a year, to the Board summarising the work of the internal audit function performed in fulfilling the Committee's responsibilities, functions and duties for the financial year including details of relevant training attended by the Committee.
- 6.12 To consider the major findings of internal investigations and management's response;
- 6.13 To ensure the internal audit function is independent of the work it audits and the Head of Internal Audit reports directly to the Committee. The Head of Internal Audit should have the relevant qualification and be responsible for providing assurance to the 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 risk management, internal control and governance processes within the Company;
- 6.14 To review the adequacy and effectiveness of the risk management process to identify key operational risks and the systems/processes in place to monitor and manage risks prepared by the internal auditors; and
- 6.15 To consider other areas as defined by the Board.

**Related Party Transactions and Conflict of Interest Situations**

- 6.16 Review and report to the Board any related party transaction and conflict of interest situation that arose, persist or may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity, and the measures taken to resolve, eliminate, or mitigate such conflicts;
- 6.17 Review and report to the Board any related party transactions entered into by the Group including the review and monitoring of recurrent related party transactions to ensure that:-
- (a) All transactions are fair, reasonable and undertaken on the Group's normal commercial terms at arm's length and on terms that are not detrimental to the Company and in the best interest of the Group;
  - (b) Internal control procedures with regard to such transactions are sufficient and have been complied with;
  - (c) Compliance with the relevant provisions of the Bursa Securities' MMLR
- 6.18 Ensure that the Group has adequate procedures and processes in place to monitor and track related party transactions and to review these processes.



**Whistleblowing and Fraud**

- 6.19 Review and approve policies and procedures on whistleblowing established to address allegations raised by whistle-blowers, to ensure independent investigation is conducted and follow-up action is taken and highlighted to the Committee;
- 6.20 Ensure that proper investigations are carried out, on a timely basis, for substantiated cases reported by any whistleblower to the Chairman of the Board or the Chairman of the ARC, and report the results and conclusion of such investigations, with the appropriate cause of action to be recommended to the Board for approval, in accordance with the Group's Whistle Blower policy; and
- 6.21 Review the Group's policies and procedures for detecting fraud.

**Financial Reporting**

- 6.22 Review the quarterly and year-end financial statements of the Group, focusing particularly on:-
- (i) Any changes in or implementation of major accounting policies and practices;
  - (ii) Significant matters highlighted including financial reporting issues, significant judgements made by management, significant and unusual events or transactions and how these matters are being addressed;
  - (iii) The going concern assumption;
  - (iv) Litigation or actions that could affect the financial position, performance or results materially; and
  - (v) Compliance with accounting standards and other legal requirements.
- 6.23 Monitor the integrity of the financial statements of the Group:
- (i) Assess whether the financial reports represent a true and fair view of the Group's performance and ensure compliance with the regulatory requirements;
  - (ii) To ensure the competency of the accounting staff and adequacy of the resources and infrastructure of the finance function for accurate, complete, consistent and timely reporting; and
  - (iii) To propose best practices on disclosure in the financial statements and the annual reports of the Group, to be in line with the recommendations set out in the Malaysian Code on Corporate Governance and other applicable rules and regulations.

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**Other matters**

- 6.24 Verify the allocations of shares and/or options pursuant to the share issuance scheme for employees, if any, to ensure in compliance with the criteria for allocation of shares and/or options under the share issuance scheme, at the end of each financial year;
- 6.25 To report promptly any matters resulting in the breach of MMLR to the Board. Where the ARC is of the opinion that such matter reported by it to the Board has not been satisfactory resolved, the ARC shall promptly report such matter to Bursa Securities;
- 6.26 To consider other areas as defined by the Board or as may be prescribed by Bursa Securities or any other relevant authority from time to time;
- 6.27 Prepare an Audit and Risk Committee Report at the end of the financial year for inclusion in the Annual Report pursuant to Bursa Securities' MMLR; and
- 6.28 Carry out any other function that may be mutually agreed upon by the ARC and the Board.

**7. Rights of the Committee**

The Committee shall, wherever necessary and reasonable for the Company to perform of its duties, in accordance with a procedure to be determined by the Board and at the cost of the Company:-

- 7.1 have authority to investigate any matter within its terms of reference;
- 7.2 have the resources which are required to perform its duties;
- 7.3 have full and unrestricted access to any employee and information, documents and resources pertaining to the Company and Group in the course of performing its duties;
- 7.4 have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any) on a continuous basis in order to be kept informed of matters affecting the Company and Group;
- 7.5 be able to obtain independent professional or other advice as and when necessary, at the expense of the Company;
- 7.6 be able to convene meetings with external auditors, the persons carrying out the internal audit function or both (without the presence of executive Board members and management) at least twice (2) a year and whenever deemed necessary; and
- 7.7 be able to make decision on matters which fall within the purpose and responsibilities of the ARC.

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The Chairman of the Committee shall engage on a continuous basis with senior management, such as the Chairman, the Chief Executive Officer or Executive Directors, the Chief Financial Officer/Group Financial Controller, the Head of Internal Audit and the External Auditors in order to be kept informed of matters affecting the Group.

## **8. Disclosure**

The Committee is required to prepare a Committee Report at the end of each financial year for inclusion in the Annual Report of the Company. The Committee Report shall include the following information:

- (a) Composition of the Committee, including the name, designation (indicating the Chairman) and directorship of the members (indicating whether the Directors are independent or otherwise);
- (b) Number of Committee meetings held during the financial year and details of attendance of each Committee member;
- (c) Summary of the work carried out by the Committee in the discharge of its functions and duties for that financial year of the Company and how it has met its responsibilities;
- (d) Summary of the work of the internal audit function; and
- (e) A summary of any conflict of interest or potential conflict of interest situation reviewed by the Committee pursuant to paragraph 15.12(1)(h) of the MMLR (excluding a related party transaction), and the measures taken to resolve, eliminate, or mitigate such conflicts.

The Committee shall also assist the Board in making the following additional statements in the Company's Annual Report:

- (a) Statement explaining the Board's responsibility for preparing the annual audited financial statements of the Group; and
- (b) Statement about the state of risk management and internal controls of the Group.

## **9. Minutes**

The Minutes of meetings of the Committee shall be circulated to all members of the Board. The minutes shall be kept at the registered office of the Company under the custody of the Secretary of the Company and shall be open for inspection by the Board. Any request by Management or other persons to inspect the minutes shall be subject to the approval of the Committee.

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**10. Reporting Responsibilities**

The Chairman of the Committee shall report to the Board on its proceedings after each meeting on all matters with its duties and responsibilities.

The Committee shall make whatever recommendation to the Board it deems appropriate or any area within its remit where action or improvement is needed.

**11. General Meetings**

The Chairman of the Committee should attend the General Meetings to answer any shareholder questions on the Committee's activities.

**12. Written Terms of Reference**

The Committee must have written terms of reference which deal with its authority and duties, and such information must be made available on the Company's website.

**13. Periodic Review**

This Terms of Reference shall be reviewed whenever necessary by the Committee.

Any revision or amendment to this Terms of Reference, as proposed by the Committee or any third party, shall first be presented to the Board for its approval.

Upon the Board's approval, the said revision or amendment shall form part of this Terms of Reference and this Terms of Reference shall be considered duly revised or amended.

This Terms of Reference is reviewed and approved by the Board on 20 November 2023.