

SMIS Corporation Berhad
(Company No. 491857-V)

Terms of Reference of the Audit and Risk Committee

1. Introduction

The Audit and Risk Committee (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, in line with the Malaysian Code on Corporate Governance 2017 (“MCCG”), is to assist the Board in meeting its responsibilities relating to accounting, reporting practices and risk management of the Company and its subsidiary companies (“the Group”).

In addition, the Committee shall:

- Oversee and appraise the quality of the audits conducted both by the Company’s internal and external auditors;
- 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 no 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. at least one member of the Committee:-
 - 2.3.1. must be a member of the Malaysian Institute of Accountants; or
 - 2.3.2. 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 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
 - he must be a person who fulfils the requirements as prescribed or approved by Bursa Securities.

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- 2.4. no alternate Director of the Board shall be appointed as a member of the Committee; and
- 2.5. 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 2.3 above, the vacancy must be filled within three (3) months of that event.

For engagement of a former key audit partner as member of the Committee, there must be a cooling-off period of at least two (2) years before being appointed as a member of the Committee.

The Nomination Committee must 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. Meetings

Meetings shall be held at least four (4) times in each financial year. Additional meetings may be conducted if the need arises.

However, at least twice a year the Committee shall meet with the external auditors without the presence of the executive Board members and management.

In addition, the Chairman may call for a meeting of the Committee if a request is made by any Committee member, the senior management or the internal or external auditors.

A quorum shall consist of a majority of Independent Directors.

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. A resolution in writing, signed 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

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consist of several documents in like form, each signed by one or more committee members.

4. 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.

5. Functions

The functions of the Committee are as follows:-

5.1. Review the following and report the same to the Board:-

- 5.1.1. with the external auditors, their audit plan;
- 5.1.2. with the external auditors, their evaluation of the system of risk management and internal controls;
- 5.1.3. with the external auditors, their audit report;
- 5.1.4. the assistance given by the Company's employees to the external auditors; and
- 5.1.5. 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 and the framework to be established.

5.2. To consider 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, in addition to the suitability factors as set out below:

- (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.

to also consider the objectivity and the independence of the external auditors such as:

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- (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) 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
 - (iv) 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.
- 5.3. 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;
- 5.4. 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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- 5.5. 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.
- 5.6. 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);
- 5.7. To review the external auditors' management letter and management's response;
- 5.8. 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;
- 5.9. 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;
- 5.10. 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;
 - Inform itself of resignations of internal auditors and provide the resigning internal auditor 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

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- Prepare reports, at least one (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.
- 5.11. To consider the major findings of internal investigations and management's response;
- 5.12. 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;
- 5.13. To report promptly any matters resulting in the breach of the MMLR of Bursa Securities to the Board. Where the Committee is of the opinion that such matter reported by it to the Board has not been satisfactorily resolved, the Committee shall promptly report such matter to Bursa Securities; and
- 5.14. To consider other areas as defined by the Board.

6. 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 of Directors and at the cost of the Company:-

- 6.1. have authority to investigate any matter within its terms of reference;
- 6.2. have the resources which are required to perform its duties;
- 6.3. have full and unrestricted access to any information pertaining to the Company and Group;
- 6.4. 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;
- 6.5. be able to obtain independent professional or other advice, at the expense of the Company; and
- 6.6. 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 a year and whenever deemed necessary.

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 Group Financial Controller, the Head of Internal Audit and the External Auditors in order to be kept informed of matters affecting the Group.

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7. 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; and
- (d) Summary of the work of the internal audit function.

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.

8. 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.

9. 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.

10. General Meetings

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

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11. 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.

12. Periodic Review

This Terms of Reference shall be reviewed every three (3) years or as and when necessary by the Board.

This Terms of Reference is dated 6 April 2018.