



**STRETCHING LIMITS • SINCE 1979**

**KOSSAN RUBBER INDUSTRIES BHD**

**AUDIT COMMITTEE  
TERMS OF REFERENCE**

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**1. COMPOSITION AND APPOINTMENT**

- 1.1. The Audit Committee members shall be appointed by the Board from amongst its Directors and shall consist of not less than three (3) members.
- 1.2. All the Audit Committee members shall be Non-Executive Directors, and a majority of them being Independent Directors.
- 1.3. All members of the Audit Committee shall be financially literate with at least one (1) member:
  - (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 -
    - (a) he/she must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or
    - (b) he/she must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967; or
  - (iii) fulfils such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad.
- 1.4. No alternate Director shall be appointed as a member of the Audit Committee.
- 1.5. 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 being appointed as a member of the Audit Committee.
- 1.6. In the event of any vacancy in the Audit Committee resulting in the non-compliance of the criteria in Paragraphs 1.3 and 2.1 of the Terms of Reference, the Board shall appoint such number of new members to fill the vacancy within 3 months, or such other extension as may be allowed by Bursa Malaysia Securities Berhad.
- 1.7. Collectively, the Audit Committee should possess a wide range of necessary skills to discharge its duties. All members should be financially literate and are able to understand matters under the purview of the Audit Committee including the financial reporting process.
- 1.8. All members of the Audit Committee should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.
- 1.9.

**2. CHAIRMAN**

- 2.1 The Chairman of the Audit Committee shall be elected from among the members of the Audit Committee, who is an independent Director.
- 2.2 The Chairman of the Audit Committee is not the Chairman of the Board.

**3. FUNCTIONS AND DUTIES**

The main functions and duties of the Audit Committee shall include reviewing and where appropriate, report to the Board the following:

**3.1 External Audit**

- 3.1.1 The external auditors' Audit Plan and scope of audit;
- 3.1.2 The external auditors' evaluation of the system of internal controls;
- 3.1.3 The external auditors' Audit Reports;
- 3.1.4 The assistance given by the employees of the Group to the external auditors;
- 3.1.5 Any letter of resignation from the external auditors;
- 3.1.6 Any reason that the external auditors may not be suitable for re-appointment;
- 3.1.7 Making recommendations for nomination as external auditors;
- 3.1.8 Has proper policies and procedures to assess the suitability, objectivity and independence of the external auditor

**3.2 Internal Audit**

- 3.2.1 The adequacy of the scope, competency and resources of the internal audit function and that it has the necessary authority to carry out its work;
- 3.2.2 The internal Audit Plan, processes, the results of the internal audit assessments, investigation undertaken and whether or not appropriate action is taken on the recommendations;
- 3.2.3 Ensure that the internal audit function is effective and able to function independently;

3.2.4 That the internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence; and

3.2.5 That the internal audit function is carried out in accordance with an established framework.

### **3.3 Risk Management and Internal Control**

3.3.1 The adequacy and effectiveness of risk management and internal control system;

3.3.2 The Group's risk management policy and implementation of the risk management framework;

3.3.3 The composition and effectiveness of the Risk Management Committee; and

3.3.4 The reports of the Risk Management Committee.

### **3.4 Financial Reporting**

The quarterly results and year-end financial statements, before the approval by the Board of Directors, focusing particularly on:

(a) changes in or implementation of major accounting policy changes;

(b) significant matters highlighted including financial reporting issues;

(c) significant judgements made by management;

(d) significant and unusual events or transactions, and how these matters are addressed; and

(e) compliance with accounting standards and other legal requirements.

### **3.5 Related Party Transactions**

Any related party transactions and conflict of interests situation that may arise within the Group including any transaction, procedure or course of conduct that raises questions of management integrity.

### **3.6 Corporate Governance**

3.6.1 The code of conduct and ethics policy for the Board's approval and implementation;

3.6.2 The anti-bribery and corruption policy for the Board's approval and implementation; and

3.6.3 The whistleblowing policy for the Board's approval and implementation.

#### **4. AUTHORITY**

- 4.1 The Audit Committee shall wherever necessary and reasonable for the performance of its duties, and in accordance with the procedures to be determined by the Board at the expense of the Group to perform the following:
- 4.1.1 Have authority to investigate any matter within its Terms of Reference;
  - 4.1.2 Have the resources which are required to perform its duties;
  - 4.1.3 Have full and unrestricted access to any information pertaining to the Company and the Group;
  - 4.1.4 Have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;
  - 4.1.5 Be able to obtain independent professional or other advice; and
  - 4.1.6 Be able to convene meetings with the external auditors, the person(s) carrying out the internal audit function or activity or both, excluding the attendance of other Directors and employees of the Group, whenever deemed necessary.
- 4.2 Where the Audit Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Malaysia Securities Berhad, the Audit Committee shall promptly report such matter to Bursa Securities.

#### **5. MEETINGS AND PROCEDURES**

- 5.1 The Audit Committee shall regulate its own activities, in particular –
- (a) The calling of meetings;
  - (b) The notice to be given of such meetings;
  - (c) The voting and proceedings of such meetings;
  - (d) The keeping of minutes; and
  - (e) The custody, production and inspection of such minutes.

##### **Frequency**

- 5.2 The Audit Committee shall meet at least quarterly in a financial year. The Chairman of the Audit Committee, and in consultation with the Secretary, should determine the frequency of committee meetings.

- 5.3 The Audit Committee shall meet with the external auditors at least once in a financial year without the presence of executive Board members, and whenever necessary.

### **Quorum**

- 5.4 The quorum for an Audit Committee meeting shall be two (2) members, with the majority of members present being Independent Directors. In the absence of the Chairman, the members present shall elect a Chairman from amongst the Independent Directors to chair the meeting.

### **Notice of Meeting and Agenda**

- 5.5 The Company Secretary shall issue and circulate the notice of the Audit Committee meeting stating the venue, time and date at least five (5) working days prior to the meeting to all Audit Committee members and those required to attend the meeting.
- 5.6 The agenda for the meeting together with all relevant information and documents shall be circulated together with the notice of meeting to all Audit Committee members and those required to attend the meeting.

### **Minutes of Meeting**

- 5.7 The minutes of meeting shall be kept at the registered office and distributed to each member of the Audit Committee and also to the other members of the Board.
- 5.8 The minutes of the Audit Committee meeting shall be signed by the Chairman of the said meeting or by the Chairman of the next succeeding meeting.
- 5.9 The Chairman shall update the Board on the activities undertaken by the Audit Committee at each Board meeting.

### **Secretary**

- 5.10 The Company Secretary shall be the Secretary to the Audit Committee. The Secretary is responsible to prepare and circulate the minutes of the meeting of the Audit Committee to all members and table the same to the Board for notation.

### **Circular Resolution**

- 5.11 A resolution in writing signed or approved by letter, telefax or other written electronic communications by the majority of the members who are sufficient to form a quorum, shall be valid and effectual as if it had been passed at a meeting. All such resolutions shall be described as “Members’ Circular Resolutions” and delivered to the Secretary and shall be recorded by the Secretary in the minutes book. Any such resolution may consist of several documents in like form, each signed by one (1) or more members.

### **Attendance of other Directors and Employees**

- 5.12 Other Directors and employees shall attend the Audit Committee meeting only at the invitation of the Audit Committee, specific to the relevant meeting.

## **6. AUDIT COMMITTEE REPORT**

The Audit Committee shall prepare an Audit Committee report at the end of each financial year in compliance with the Listing Requirements of Bursa Malaysia Securities Berhad and is clearly set out in the Company's Annual Report.

## **7. REVIEW OF THE AUDIT COMMITTEE**

The Nominating Committee shall review the terms 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.

## **8. REVIEW OF THE TERMS OF REFERENCE**

The Audit Committee shall review and assess the adequacy of the Terms of Reference on an annual basis determined by the Audit Committee or as and when necessary. Any proposed changes to the Terms of Reference shall be approved by the Board.