



**SYSTECH BHD.**

**[Registration No. 201001012883 (897114-T)]**

Incorporated in Malaysia

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**TERMS OF REFERENCE OF THE AUDIT AND RISK MANAGEMENT COMMITTEE**

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## **1. Objectives**

- 1.1. The Audit and Risk Management Committee (“**ARMC**” or the “**Committee**”) was formed by the Board of Directors (the “**Board**”) of the Company. Its primary function, in line with the Malaysian Code on Corporate Governance, is to assist the Board in the following areas:
- (a) In complying with specified accounting standards and required disclosure as administered by Bursa Malaysia Securities Berhad (“**Bursa Securities**”), relevant accounting standards bodies, and any other laws and regulations as amended from time to time;
  - (b) In presenting a balanced and understandable assessment of the Company’s position and prospects;
  - (c) In establishing a formal and transparent arrangement for maintaining an appropriate relationship with the Company’s external and internal auditors;
  - (d) Evaluate the Company and its subsidiaries (the “**Group**”) level of risk tolerance, risk appetite and risk profile;
  - (e) Assess and monitor risks to be within its risk appetite; and
  - (f) Review the Company’s internal control and engage with Management to periodically test the adequacy and effectiveness of the risk management framework and internal control system.

## **2. Composition**

- 2.1. The ARMC shall be appointed from amongst the Board and shall:
- (a) comprise no fewer than three (3) members;
  - (b) comprise exclusively of Non-Executive Directors, a majority of whom are independent;
  - (c) elect a Chairman from its members. The Chairman shall be an Independent Non-Executive Director and is not the Chairman of the Board.
  - (d) at least one (1) member must be a member of the Malaysian Institute of Accountants or possess such other qualification and/or experience as approved by Bursa Securities.

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- 2.2. A former key audit partner is required to observe a cooling-off period of at least three (3) years. No alternate Director shall be appointed as a member of the Committee.
- 2.3. In the event of any vacancy with the result that the number of members (including Chairman) is reduced to below three (3), the Board shall upon the recommendation of the Nomination Committee to fill the vacancy within three (3) months. Therefore a member of the Committee who wishes to retire or resign should provide sufficient written notice to the Company so that a replacement may be appointed before he leaves.

**3. Quorum and Meeting Procedures**

- 3.1. The Committee shall meet at least four (4) times in each financial year. More meetings may be conducted if necessary.
- 3.2. The quorum for a meeting of the Committee shall be two (2) members. In the absence of the Chairman, the members present shall elect a Chairman for the meeting among the members present.
- 3.3. The secretary of the Company or his/her representative shall act as the secretary of the Committee (the **"Secretary"**). The Secretary, in conjunction with the Chairman, shall draw up an agenda, which shall be circulated together with the relevant support papers, at least one (1) week prior to each meeting to the members of the Committee.
- 3.4. The Secretary shall also be in the attendance at each Committee meeting and responsible for keeping the minutes of meetings of the Committee and circulating them to Committee members and other members of the Board.
- 3.5. The internal auditors have the right to appear and be heard at any meeting of the Committee and are recommended to attend each ARMC meeting.
- 3.6. Upon the request of the external and / or internal auditors, the Chairman shall also convene a meeting of the ARMC to consider any matter the external and / or internal auditors believe should be brought to the attention of the Board or the shareholders.
- 3.7. The ARMC shall meet at least twice a year with the external and internal auditors without the presence of executive Board members and the Management.
- 3.8. The Committee members may participate in a meeting by means of conference telephone, conference videophone or any similar or other communications equipment by means of which all persons participating in the meeting can hear each other. Such participation in a meeting shall constitute presence in person at such meeting.

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

#### **4. Disclosure**

4.1. The ARMC is required to prepare an ARMC Report at the end of each financial year to be included and published in the Annual Report. The ARMC Report shall include the following:

- (a) Composition of the ARMC, including the name, designation (indicating the Chairman) and directorship of the members (indicating whether the Directors are independent or otherwise);
- (b) Number of ARMC meetings held during the financial year and details of attendance of each ARMC member;
- (c) Summary of the activities carried out by the ARMC in the discharge of its responsibilities, functions and duties for that financial year of the Company; and
- (d) Summary of the activities carried out by the internal auditors.

4.2. The ARMC shall assist the Board in making the following additional statements in the 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 internal control and risk management of the Group.

#### **5. Advisers**

5.1. The Committee is authorised by the Board to seek appropriate professional advice inside and outside the Group at the expense of the Company as and when it considers necessary in the discharge of its responsibilities.

## **6. Rights**

### **6.1. The Committee shall:**

- (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 Group which is required for the purpose of discharging its functions and responsibilities;
- (d) Have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity and Senior Management of the Company;
- (e) Have the right to obtain independent professional or other advice at the Company's expense;
- (f) Have the right to convene meetings with the external auditors and the persons carrying out the internal audit function, excluding the attendance of the Management and any executive members of the Board, whenever deemed necessary;
- (g) Promptly report to the Bursa Securities, or such other name(s) as may be adopted by Bursa Securities, matters which have not been satisfactorily resolved by the Board resulting in a breach of the listing requirements;
- (h) Have the right to pass resolutions by a simple majority vote from the Committee and that the Chairman shall have the casting vote should a tie arise;
- (i) Meet as and when required on a reasonable notice; and
- (j) The Chairman shall call for a meeting upon the request of the external auditors or internal auditors

## **7. Responsibilities and Duties**

### **7.1. In fulfilling its primary objectives, the Committee shall undertake the following responsibilities and duties: -**

- (a) To review with the external auditors on:

- (i) The audit plan, its scope and nature;
  - (ii) The audit report;
  - (iii) The result of their evaluation of the accounting policies and system of internal accounting controls within the Group;
  - (iv) The assistance given by the officers of the Company to external auditors, including any difficulties or disputes with management encountered during the audit; and
  - (v) Any other matters the external auditors may wish to discuss in the absence of the management, if necessary.
- (b) To review the adequacy of the scope, functions and resources and set the standards of the internal audit function.
- (c) To do the following, in relation to the internal audit function:
- (i) 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;
  - (ii) Review the internal audit programme, processes, the results of the internal audit programme and process and where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function;
  - (iii) Review any appraisal or assessment of the performance of members of the internal audit function;
  - (iv) Review the independency of members of the internal audit function;
  - (v) Approve any appointment or termination of the internal auditors;
  - (vi) Take cognizance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning;
  - (vii) Review the necessary budget allocated to internal audit function;
  - (viii) Investigate or cause to be investigated any activity within its Terms of Reference; and

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- (ix) To have explicit authority over the resources such as professional advice and full access to information to investigate certain matters.
- (d) To review with Management:
  - (i) Audit reports and management letter issued by the external auditors and the implementation of audit recommendations;
  - (ii) Interim financial information; and
  - (iii) The assistance given by the officers of the Company to external auditors.
- (e) To review and monitor related party transactions entered into by the Company or the Group and to determine if such transactions are undertaken on an arm's length basis, normal commercial terms, on terms not more favourable to the related parties than those generally available to the public, to ensure that the Directors report such transactions annually to shareholders via the annual report, and to review conflicts of interest that may arise within the Company or the Group including any transaction, procedure or course of conduct that raises questions of management integrity.
- (f) To review the quarterly reports on consolidated results and annual financial statements prior to submission to the Board, focusing particularly on:
  - (i) Changes in or implementation of major accounting policy and practices;
  - (ii) Significant and/or unusual 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) Compliance with accounting standards and other legal requirements; and
  - (v) Major areas.
- (g) To consider the appointment and/or re-appointment of auditors, the audit fee and any questions of resignation or dismissal including recommending the nomination of person or persons as auditors. In considering the appointment and/or re-appointment of the auditors, to consider among others:

- (i) The adequacy of the experience and resources of the accounting firm;
- (ii) The persons assigned to the audit;
- (iii) The accounting firm's audit engagements;
- (iv) The size and complexity of the Company's Group being audited;
- (v) The number and experience of supervisory and professional staff assigned to the particular audit.

The Committee shall also consider the performance of the external auditors and its independence annually as below:

- (i) The competence, audit quality and resource capacity of the external auditors in relation to the audit;
  - (ii) 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;
  - (iii) The nature of the non-audit services provided by the external auditors and fees paid for such services relative to the audit fee;
  - (iv) 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; and
  - (v) Obtaining written assurance from the external auditors confirming that they are and have been independent throughout the conduct of the audit engagement and in accordance with the terms of all relevant regulatory requirements.
- (h) To review and approve the non-audit services provided by the external auditors and/or its network firms to the Company for the financial year, including the nature of the non-audit services, fees for the non-audit services relative to the external audit fees and safeguards deployed to eliminate or reduce the threat to objectivity and independence in the conduct of the external audit resulting from the non-audit services provided.

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. constitute 50% of the total amount of audit fees paid to the Company's external auditors) the Company is required to state the details on the nature of non-audit services-rendered in the Annual Report under the ARMC Report.



- (i) To verify any allocation of options in accordance with the employees share scheme of the Company, at the end of the financial year.
- (j) To review the adequacy and integrity, including effectiveness, of risk management and internal control systems, management information system, and the internal auditors' and/or external auditors' evaluation of the said systems and assess the resources and knowledge of the management and employee involved in the risk management process.
- (k) To review the risk profile of the Group (including risk registers) and the Risk Management team's plans to mitigate business risks as identified from time to time.
- (l) To review the effectiveness of internal control systems deployed by the Management to address those risks.
- (m) To review and recommend the corrective measures undertaken to remedy failings and/or weakness.
- (n) To review and recommend risk management strategies and policies.
- (o) To review and assess adequacy of risk management policies and framework in identifying, measuring, monitoring, mitigating, and controlling risk and the extent to which these are operating effectively.
- (p) To ensure adequate infrastructure, resources and systems are in place for risk management.
- (q) To review periodic reports from the Management on risk exposure, risk portfolio composition and risk management activities.
- (r) To review and recommend new policies or changes to policies, and to consider their risk implications including the procedures in place by the Management to prevent and detect fraud such as cyber fraud.
- (s) To review the impact of risk on capital adequacy and profitability under normal and stress scenarios.
- (t) To review and evaluate the various processes and systems engaged by the Company and to ensure that they are conducted within the standards and policies as set by the Board.
- (u) To assess the adequacy of the business recovery/disaster recovery procedures.

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- (v) To oversee the Group's internal control structure to ensure operational effectiveness and efficiency, reduce risk of inaccurate financial reporting, protect the Group's assets from misappropriation and encourage legal and regulatory compliance.
- (w) To provide reporting and update the Board on key risk management issues.
- (x) To review the statement with regard to the Statement on Risk Management and Internal Controls of the Company for inclusion in the Annual Report and to report the same to the Board.
- (y) 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.

**8. Monitoring, Periodic Review and Disclosure**

- 8.1. This Terms of Reference should be reviewed annually by the ARMC.
- 8.2. 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.
- 8.3. The Terms of Reference should be disclosed on the Company's website.