

**HENGYUAN REFINING COMPANY BERHAD**

**(3926-U)**

**BOARD AUDIT COMMITTEE  
TERMS OF REFERENCE**

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## **1. PURPOSE**

- 1.1 The Board Audit Committee (“BAC”) is established as a committee of Hengyuan Refining Company Berhad (formerly known as Shell Refining Company (Federation of Malaya) Berhad) (the “Company”) Board of Directors (“the Board”) with the following primary objectives:
- 1.1.1 To bring transparency, focus and independent judgment required in assisting the Board in fulfilling its statutory and fiduciary responsibilities of monitoring the Company’s management of financial risk processes, and accounting and financial reporting practices.
- 1.1.2 To review business processes, the quality of the Company accounting function, financial reporting and the system of internal controls.
- 1.1.3 To ensure proper internal controls are implemented and to enhance the independence of both the external and internal audit functions by providing direction to and oversight of these functions on behalf of the Board.

## **2. COMPOSITION AND APPOINTMENT**

- 2.1 The BAC members shall be appointed by the Board from amongst their number and shall consist of not less than three (3) members, all of whom shall be Independent Non-Executive Directors.
- 2.2 All members of the BAC should be financially literate and:
- Have the ability to read and understand financial statements, including a company’s statement of financial position, statement of comprehensive income, and cash flow statement;
  - Be able to effectively analyse financial statements and ask pertinent questions about the Company’s operations against internal controls and risk factors;
  - Be able to understand and interpret the application of approved accounting standards and other related requirements; and
  - Are expected to undertake continuous professional development to keep abreast of relevant developments in accounting and auditing standards, practices and rules.

- 2.3 At least one member of the BAC shall be a member of the Malaysian Institute of Accountants or shall fulfil such other requirements as prescribed in the Main Market Listing Requirements (“Listing Requirements”) of Bursa Malaysia Securities Berhad (“Bursa”).
- 2.4 No alternate Director shall be appointed as a member of the BAC.
- 2.5 The Chair of the BAC, who shall not be the Chair of the Board, shall be an Independent Non-Executive Director appointed by the Board and acts as the key contact between the BAC members and Board members as well as Senior Management and the auditors. In the absence of the Chair, the meeting shall be chaired by an Independent Director.
- 2.6 The BAC members may relinquish their membership in the BAC with prior written notice to the Company Secretary. Any vacancies resulting in non-compliance with the Listing Requirements shall be filled as soon as possible, but not later than three (3) months from that event.
- 2.7 A former key audit partner of the external auditors shall be subject to a minimum two year cooling-off period before being appointed as a member of the BAC.
- 2.8 The BAC shall have the authority to review and approve the appointment, replacement or removal of a Chief Internal Auditor (“CIA”) who shall report directly to the Chair of the BAC. The CIA shall be responsible for developing a suitable risk based internal audit program that can give stakeholders assurance that business controls are operating effectively. The CIA shall work with the external auditors and any other approved vendors to optimise the audit scope and areas of coverage in any given period.
- 2.9 The BAC shall have the services of the Chief Compliance Officer who shall report periodically to the BAC on the status of the Company’s compliance to the Listing Requirements and on the status of the Company’s compliance to all rules set out by the Securities Commission, Suruhanjaya Syarikat Malaysia, Bank Negara and any other regulator governing the Company’s business and operations.

### **3. AUTHORITY**

- 3.1 The BAC is authorised by the Board and at the expense of the Company to perform the following:
- 3.1.1 Secure the resources in order to perform its duties as set out in its terms of reference.
  - 3.1.2 Investigate any activity within its terms of reference and shall have direct communication channels with Senior Management, Company's Internal Auditor and the external auditors.
  - 3.1.3 Have full and unrestricted access to information pertaining to the Company, their records, properties and personnel.
  - 3.1.4 Obtain external legal or other independent professional advice as necessary.
  - 3.1.5 Convene meetings with the external auditors without the attendance of any executive, and if appropriate, the Company Secretary, whenever deemed necessary.
- 3.2 The BAC shall report to the Board on matters considered and its recommendations thereon, pertaining to the Company.

### **4. FUNCTIONS AND DUTIES**

The main functions and duties of the BAC shall include, but are not limited to the following:

#### **4.1 Financial Reporting**

- 4.1.1 Review the quarterly and annual financial statements of the Company with Management and the external auditors focusing on the matters set out below, prior to approval by the Board:
- any change in accounting policies and practices, and its implementation;
  - significant adjustments arising from the audit;

- 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;
- the appropriateness of Senior Management's selection of accounting policies and disclosures in compliance with accounting standards and regulatory requirements;
- whether there is any need to put in solvency/cash flow forecast of the Company;
- provide advice on whether the financial statements taken as a whole provide a true and fair view of the Company's financial position and performance; and
- propose best practices on disclosure of financial results and annual reports of the Company in line with the principles set out in the Malaysian Code of Corporate Governance, other applicable laws, rules, directives and guidelines.

4.1.2 Review with the external auditors the audited financial statements for the purpose of approval prior to presentation to the Board for adoption, for the following:

- whether the auditor's report contained any qualifications which must be properly discussed and acted upon;
- whether there is any significant changes and adjustments in the presentation of financial statements;
- whether it is in compliance with laws and accounting standards;
- whether there is any material fluctuations in balances;
- whether there is any significant variations in audit scope and approach;
- and
- whether there is any significant commitments or contingent liabilities.

4.1.3 Discuss problems and issues arising from the interim and final external audits, final letters of recommendation to the management, including management responses and the external auditor's evaluation of the system of internal control and any other matters the external auditors may wish to discuss in the absence of Management, where necessary.

- 4.1.4 Provide the Board with assurance on the quality and reliability of financial information used by the Board and of the financial information issued publicly by the Company.

## **4.2 Internal Controls**

- 4.2.1 In relation to internal controls:
- Oversee the internal controls framework to ensure operational effectiveness and adequate protection of the Company's assets from misappropriation.
  - Review, challenge, evaluate and approve, with the Company's Internal Auditor to the extent deemed appropriate by the Chair of the BAC and Senior Management, the audit plan and audit methodology to ensure robustness, integrity and effectiveness of the Company's internal control system and management information systems, the Company's financial auditing and accounting organization and personnel and compliance with applicable laws, rules, corporate governance requirements and guidelines.
  - Review the adequacy of the scope, functions, competency, experience, resources, independence and authority of the internal audit function in carrying out its work.
  - Ensure co-ordination between the internal and external auditors.
  - Review the major findings reported by the internal audit and follow up on Senior Management's implementation of the recommended actions.
  - Recommend to the Board, the Statement on Internal Control and any changes to the said Statement.
  - Annually review and assess performance of the members and the services provided by the internal audit function.
  - Monitors the duties of the internal audit team and ensures that the internal audit team has direct access and reports directly to the BAC.

## **4.3 Dealings with External Auditors**

- 4.3.1 Recommend to the Board the appointment or re-appointment of the external auditor and the audit fee after reviewing their suitability, resources,

competency and independence, and any resignation or dismissal of the external auditor and secure the reasons therefor.

4.3.2 Establish policies and procedures to assess, on an annual basis, the suitability, objectivity and independence of the external auditors. Such assessment will take into consideration factors such as :-

- the competence, audit quality and resource capacity of the external auditor in relation to the audit;
- the nature and extent of the non-audit services rendered and the appropriateness of the level of fees; and
- obtaining written assurance for the external auditors confirming their independence throughout their audit engagement in accordance with all professional and regulatory requirements.

4.3.3 Discuss the following with the external auditor prior to commencement of the audit:

- the nature and scope of audit;
- the audit strategy and plan for the year;
- co-ordination of audit where more than one audit firm is involved;
- the BAC member's insights, views and concerns on relevant transactions and any matters that may have an effect on the financial audit;
- evaluation of the system of internal controls;
- effectiveness of the management information system including any suggestions for improvement and Management's response; and
- the audit reports.

#### **4.4 Related Party Transactions**

4.4.1 Ensure that Senior Management establishes a comprehensive framework for the purposes of identifying, evaluating, approving, disclosing, reporting and monitoring conflict of interest situations and Significant Related Party Transactions including any transaction, procedure or course of conduct that raises questions on management integrity.

“Significant Related Party Transaction” is defined as related party transaction involving recurrent transactions of a revenue or trading nature which are necessary for the Company's day-to-day operations and are in the ordinary

course of business of the Company which value is [RM \*\*\*\*] for a financial year.

#### **4.5 Other Matters**

- 4.5.1 Prepare an audit committee report at the end of the financial year pursuant to the Listing Requirements.
- 4.5.2 Ensure that proper processes and procedures are in place to comply with all laws, regulations and rules established by all relevant regulatory bodies and which could have a significant impact on the Group's financial statements.
- 4.5.3 Ensure that any matter which results in a breach of the Listing Requirements is reported to Bursa if it has not been satisfactorily resolved.
- 4.5.4 Highlight such matters as the BAC considers appropriate and undertake any such other functions as may be determined by the Board from time to time.

### **5. MEETINGS**

#### **5.1 Frequency**

- 5.1.1 The BAC shall meet at least quarterly in a financial year, usually preceding the Board meetings. The Chair of the BAC, in consultation with the Company Secretary, should determine the frequency of committee meetings. The schedule of meetings should be discussed with all the participants concerned, including Senior Management and external auditors to ensure that key tasks, such as approval of financial statements for timely issuance, can be accommodated. Additional meetings shall be scheduled as considered necessary by the Chair of the BAC or should circumstances require.
- 5.1.2 The Managing Director, Company's Internal Auditor and Chief Financial Officer shall attend the quarterly meetings although they do not have any voting rights.
- 5.1.3 Other members of the Board may attend the meetings upon the invitation of the BAC.

5.1.4 At least twice a year, the BAC shall meet with the external auditors without the presence of any executive members.

5.1.5 The BAC shall meet prior to the release of the Company's quarterly results and annual reports to discuss the proposed disclosures in the quarterly announcements and annual reports.

## **5.2 Notice and Agenda**

5.2.1 The Company Secretary shall issue and circulate the notice of BAC meetings confirming the venue, time and date at least five (5) working days before each meeting to the BAC members and all those who are required to attend the meeting.

5.2.2 The agenda for each BAC meeting including relevant documents and information shall be circulated at least five (5) working days before each meeting to the BAC members and all those who are required to attend the meeting.

5.2.3 The agenda shall be the responsibility of the Chair with input from the members. Where necessary, the agenda shall include input from the Senior Management and/or external auditors.

5.2.4 The Chair may also invite other members of Senior Management and other persons to participate in this process, if necessary.

## **5.3 Quorum**

5.3.1 The quorum for a meeting of the BAC shall be three (3) members. In the absence of the Chair, the members present shall elect a Chair from amongst them to chair the meeting.

## **5.4 Meeting Mode**

5.4.1 A meeting shall normally be conducted face-to-face to enable effective discussion; however, meetings may also be conducted via telephone

conferencing, video conferencing or other appropriate means as determined by the BAC.

- 5.4.2 The BAC may from time to time and if deemed appropriate, consider and approve and/or recommend relevant matters via a Circular Resolution in writing, in lieu of formally convening a meeting. The Circular Resolution shall be as valid and effectual as if it has been passed by a meeting of the BAC duly convened. Approval of the AC obtained by a Circular Resolution must be signed or approved by all BAC members subject to 5.5.2.

## **5.5 Voting**

- 5.5.1 All resolutions of the BAC shall be adopted by a simple majority vote, each member having one vote. In case of equality of votes, the Chair of the BAC shall have a second or casting vote.
- 5.5.2 A BAC member is required to abstain from deliberations and voting in respect of any matter which may give rise to an actual or perceived conflict of interest situation.

## **5.6 Meeting Minutes**

- 5.6.1 The minutes of the meeting shall faithfully record the deliberations and decisions of the BAC. The minutes shall include compiled instructions as Matters Arising for discussion at each meeting to ensure proper follow through.
- 5.6.2 Minutes (in draft form) shall be circulated for comments within 10 working days of the meeting. Minutes (in final draft form) shall be distributed to Board members at least 5 working days before the following meeting and shall be approved by the Chair of the meeting at which the proceedings are held or by the Chair of the next succeeding meeting.
- 5.6.3 Copies of minutes of each meeting shall be distributed to all members of the Board. The BAC, through its Chair, shall update the Board on the activities undertaken by the BAC at each Board meeting.

**5.7 Secretary**

- 5.7.1 The Company Secretary (or any one or more, if more than one company secretary) or such other approved person shall be the secretary of the BAC (the “Secretary”).
- 5.7.2 The Secretary shall organise and provide assistance at the BAC meetings and have the following key responsibilities:
- ensure meetings are arranged and held accordingly;
  - assist the Chair in planning the BAC’s activities;
  - draw up meeting agendas in consultation with the BAC Chair and maintain the minutes and draft its scheduled activities for the financial year;
  - ensure structured communication channels between the Board and the BAC;
  - ensure collation and distribution of information required by the BAC;
  - provide advice on governance and compliance matters to the BAC as well as practical support, whenever needed;
  - ensure proceedings of meetings are recorded and the minutes circulated in a timely manner, and reviewed by the BAC before disseminating them to the Board; and
  - ensure BAC recommendations presented to the Board are supported by papers that explain the rationale for the BAC’s recommendations.

**6. ANNUAL PERFORMANCE ASSESSMENT**

- 6.1 The BAC shall perform a self-assessment annually to assess its effectiveness in carrying out the duties as set out in these Terms of Reference.
- 6.2 The Nominating & Remuneration Committee (“NRC”) shall review the terms of office and performance of the BAC and each of its members annually to determine whether the BAC and each of its members have carried out their duties in accordance with these Terms of Reference. The NRC shall seek the views of the Chair of the BAC in its assessment of the performance of its members, other than of the Chair himself/herself.

6.3 The Board shall also review the composition, performance and effectiveness of the BAC and each of its members annually to determine the effectiveness of the BAC and each of its members in carrying out the duties as set out in these Terms of Reference.

6.4 All such assessments shall be properly documented.

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

7.1 The BAC shall review and recommend any changes to its terms of reference in such manner as the BAC deems appropriate to the Board for approval and where necessary obtain the assistance of Senior Management, the Company's external auditors and external legal counsel. The terms of reference shall be assessed, reviewed and updated where necessary i.e. when there are changes to the Malaysian Code on Corporate Governance, Listing Requirements 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 BAC's role.