

## **POLICY ON NON-AUDIT SERVICES PROVIDED BY EXTERNAL AUDITORS**

### **1. Purpose**

Malakoff Corporation Berhad (the “Company” or “MCB”), its Board and Audit Committee (“AC”) are committed to ensuring the independence of the external auditors in substance as well as in form. The following Policy on Non-Audit Services (hereinafter referred to as the “Policy”) provided by external auditors and or a firm or corporation affiliated to the auditors’ firm (collectively called the “External Auditors”) has been adopted in this regard.

The objectives of the policy are:

- to comply with the Malaysian Code on Corporate Governance 2012 (“MCCG 2012”) which is amended and replaced from time to time, Malaysian legislation, International Federation of Accountants standards and other relevant auditor-independence rules, guidelines, standards etc.
- to ensure that neither the nature of the service nor the level of reliance placed on it by the Company, could, or could be seen to, impair the objectivity of the External Auditors’ opinion on the financial statements;
- to establish a transparent reporting process for the AC to monitor the observance and compliance of the External Auditors with this Policy; and
- to avoid unnecessary restrictions on the request for services from the External Auditors.

### **2. Role of the Audit Committee**

Recommendation 5.2 of the MCCG 2012 stipulates that the AC should have policies and procedures to assess the suitability of External Auditors. The AC’s objective is to ensure that the provision of non-audit services to MCB does not impair the External Auditor’s independence or objectivity. In this context, the AC shall consider the followings:

- whether the skills and experience of the External Auditors make it suitable service provider of the non-audit service(s);
- whether the suitability and need for the service of the External Auditors has been considered
- whether safeguards have been deployed to eliminate or reduce to an acceptable level any threat to objectivity and independence in the conduct of the audit resulting from the non-audit services provided by the External Auditors; and
- the nature of non-audit services, the related fee levels and fee levels individually, and in aggregate relative to the audit fee.

The AC should satisfy itself that any safeguards required by legislation or standards are implemented and complied with.

### **3. Policy**

The External Auditors’ appointment for the statutory audit of the financial statements for MCB is approved by the shareholders at the Annual General Meeting upon recommendation of the Board. Within certain parameters, the External Auditors may be

requested to perform certain non-audit services and may often be the obvious choice due to business knowledge, confidentiality and cost considerations.

The External Auditors must remain independent of the Company both in fact as well as in appearance.

Before appointing the External Auditor to undertake a non-audit service, considerations should be given to whether this would create a threat to the External Auditors' independence or objectivity. The External Auditor should not be appointed unless appropriate safeguards are present to eliminate or reduce the threat to an acceptable level.

External Auditors shall not be considered for non-audit services specifically prohibited by the by-laws of the Malaysian Institute of Accountants or promulgations of the International Federation of Accountants for which no safeguard can eliminate or reduce the threat on the External Auditors' independence.

#### **4. Prohibited services**

The prohibition of non-audit services is based on the following principles:

- Create a mutual or conflicting interest between the External Auditors and the Company;
- Result in the External Auditors functioning in the role of management;
- Place the External Auditors in the position of auditing its own work; and
- Place the External Auditors in the position of being an advocate for the Company.

The external auditors shall observe and comply with the By-Laws of the Malaysian Institute of Accountants in relation to the provision of non-audit services, which include the following:-

- accounting and book keeping services;
- valuation services;
- taxation services;
- internal audit services;
- IT systems services;
- litigation support services;
- recruitment services; and
- corporate finance services.

All engagements of the external auditors to provide non-audit services are subject to the approval/endorsement of the Committee.

Management shall obtain confirmation from the external auditors that the independence of the external auditors will not be impaired by the provision of non-audit services.

#### **5. Safeguards**

Safeguards that may be considered:

- ensuring the engagement letter for the work includes a paragraph confirming compliance with applicable auditor-independence laws and standards, etc;
- ensuring Management of MCB has sufficient knowledge to assume responsibility for all Management's decisions and for the outcome of any reviews;

- services performed by personnel not involved in the audit (where relevant and permitted); and
- additional arrangements to objectively and independently evaluate the engagement.

All significant facts that bear upon the External Auditor's objectivity and independence relating to the provision of non-audit services, including safeguards in place must be considered.

## **6. Approval Process of Non-audit services**

The Board of MCB has authorised the AC to grant upfront approval for non-audit services provided by the External Auditors as follows:-

### **6.1 Submission of Annual Budget for non-audit services fees for approval of the AC before the new financial year commences**

The Chief Financial Officer ("CFO") will submit the budget for the non-audit services fees comprising both recurring and/or planned non-audit services (referred as "B1") as well as non-recurring non audit services (referred to as "B2") which is required or expected to be performed by the External Auditors for the upfront approval of the AC for the year. The budget must be approved by the AC before the management engage and incur non audit services fees with its External Auditors for the year.

In deriving at the annual budget for the non-audit services fees, the management should take into consideration, the estimated audit fees and whether such services could be rendered by other service providers other than the External Auditors.

#### **6.1.1 Recurring and/or planned non-audit services for approval of the AC**

The CFO will also submit together with its annual budget for B1, a list of recurring and/or planned non-audit services including the details of the services to be rendered and the estimates of the expected fees to the AC for its upfront approval. An anticipated variance of more than 10% of B1 must be specifically approved by the AC in accordance with this Policy.

Approval for any other non-audit service, i.e. for those matters which are not considered recurring and/or planned, must be sought from the AC or those whom the AC has delegated this responsibility to on a case-by-case basis.

The CFO is required to report on the actual amount spent on the recurring and/or planned non-audit services on a quarterly basis to the AC.

#### **6.1.2 Non-recurring non-audit services**

The CFO will submit an estimated amount of fees expected to be performed by the External Auditors.

Engagements of the External Auditors for performance of non-recurring non-audit services must be approved by the Group Managing Director ("GMD") (as delegated on behalf of the AC), if the fees does not exceed the annual budget for the non-audit services (i.e. non-recurring) as approved by the AC of MCB, whilst taking into consideration the estimated audit fees for the year.

The GMD must obtain prior approval by the AC Chairman before the External Auditor can be engaged to render the non-audit services, where:-

- the fee for the non-audit service exceeds RM100,000 (Ringgit Malaysia One Hundred Thousand) but on a cumulative basis does not exceed B2.

Such approvals are to be reviewed by the AC at its next quarterly AC meeting for its ratification.

Any appointment of the External Auditors which on a cumulative basis exceed B2 must be approved by the AC on a case to case basis in accordance with this Policy.

The Chief Financial Officer is required to report the actual amount spent on the non-recurring audit services on a quarterly basis to the AC (refer to approval process flowchart attached as **Appendix 1**).

## **7. Authorisation process for MCB and Group**

Approvals of non-audit services committed by MCB and its group of companies (“Group”) are required to be in accordance with this Policy.

MCB and Group must complete the “Request for Authorisation – non-audit services” form (refer to **Appendix 2**), which sets out the nature of the non-audit service, the estimated fees (including reasonable expenses) to be incurred and any safeguards that are required. The request for authorisation would only apply for non-recurrent non-audit services under Section 6.1.2. MCB and Group can only proceed with the non-audit service work when the form is authorised in accordance with this Policy.

## **8. Monitoring and reporting**

### **8.1** *Audit Committee*

The AC is to provide an annual report to the Board with respect to the non-audit services provided by the External Auditors during the year. The report must include:

- the amounts paid or payable to the External Auditor for non-audit services provided during the year; and
- a statement as to whether the AC is satisfied that the non-audit services provided during the year are compatible with applicable independence rules and standards for auditors, as well as the provisions stipulated in this Policy.

### **8.2** *Finance*

The Chief Financial Officer must report to the AC on a quarterly basis, the following:

- the non-audit services rendered to MCB and Group and actual fees paid to the External Auditors for said non-audit services;
- non-compliance of the Policy; and
- any breach of the provisions contained within the Policy must be promptly reported to the AC.

### **8.3** *Internal audit*

The internal audit function will monitor whether this Policy is being adhered to and must promptly report any breach of the provisions encapsulated in the Policy to the AC.

## **9. Administrative matters**

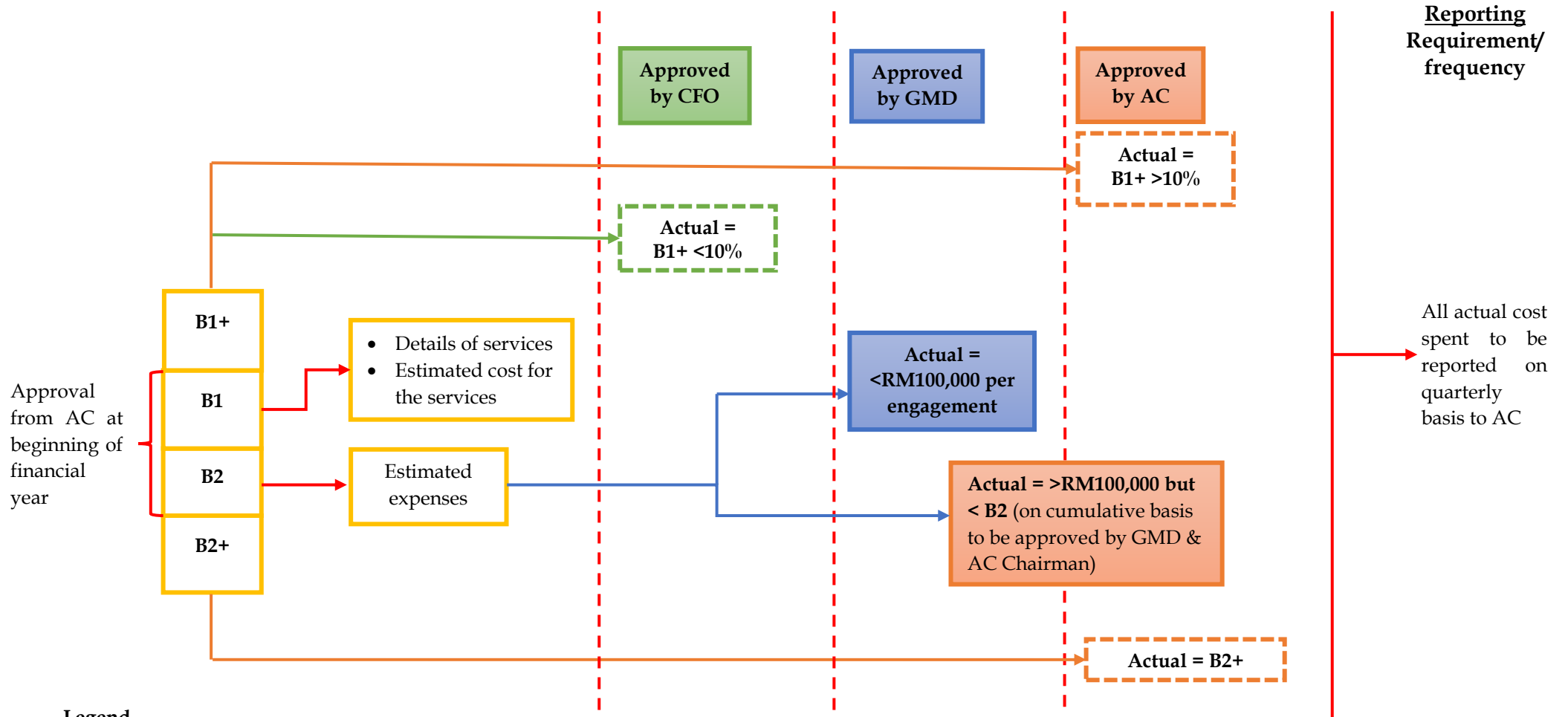
On an annual basis, the AC will review and assess the effectiveness of the Policy. Any requirement for amendment shall be deliberated upon by the Committee and any recommendations for revisions shall be highlighted proposed for approval.

The Policy will be held in the custody of the Management of MCB.

# NON-AUDIT SERVICES

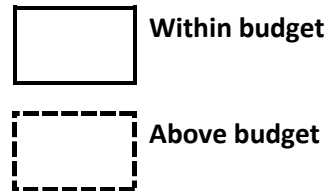
## APPROVAL AUTHORITY

### Appendix 1



### Legend

<b>B1</b>	Budget for estimated cost of recurrent and/or planned non-audit services
<b>B1+</b>	Over budget for B1
<b>B2</b>	Budget for estimated cost of non-recurrent non-audit fees
<b>B2+</b>	Over budget for B2



**Request for authorisation - non-audit services**

Date	_____	
Name of subsidiary or entity	_____ _____	
Description of service	Kindly provide a description of the service _____ _____ _____	
Recurrent services (refer to Group Finance & Accounts ("GFA"))	YES/NO	_____ _____
Non-recurrent services (refer to GFA)	YES/NO	_____ _____
Duration of service (weeks/months/ years)	_____	
Estimated fee level (RM)	_____	
Safeguards required for the service? (see "Safeguards")	YES/NO	Kindly describe the safeguards deployed and state the applicable law/ regulation _____ _____
Prepared by: _____	Date:	(Subsidiary/division/ department) _____
Reviewed by: _____	Date:	(Subsidiary/division/ department) _____
Approval (see "Approval process")	Date:	Initials: _____
Subsidiary/ Entity level CFO (required YES/NO)	_____	_____
Group Managing Director (required YES/ NO)	_____	_____
Audit Committee (required YES/ NO)	_____	_____