

# External Auditors Assessment Policy and procedures

## Objective:

In accordance with its terms of reference, the Audit Committee and Risk Management Committee (“the ACRMC”) of JHM Consolidation Berhad (“the Company”) is responsible for the assessment of the suitability, objectivity, independence and overall performance of the External Auditors. The External Auditors Assessment Policy (“this Policy”) sets out the guidelines and procedures to be undertaken by the ACRMC in discharging this responsibility.

## Scope:

Pursuant to Section 271 of the Companies Act 2016, the Company shall at each annual general meeting appoint or re-appoint External Auditors, and the External Auditors so appointed or reappointed shall hold office until the conclusion of the next annual general meeting.

## Responsibility:

Should there be a need to fill a casual vacancy or should the ACRMC determine a need to change External Auditors, the ACRMC shall follow the following procedures for the selection and appointment of the new firm of External Auditors.

## Policy and procedures:

### 1.0 Appointment

The ACRMC shall undertake the following procedures for the selection and appointment of the new External Auditors:-

- a) invite a suitable number of audit firms to submit proposals of engagement for consideration;
- b) assess and review the proposals (including proposed fees) and shortlist suitable audit firms;
- c) meet and interview representatives of the shortlisted firms;
- d) using the selection guidelines set out in 2.0 below, select a firm with the view of recommending to the Board for appointment; and
- e) the ACRMC shall consider seeking the assistance of the Head of Finance when performing (a), (b) and (c).

Upon the endorsement of the Board, a resolution for the appointment of the new External Auditors and/or removal of the existing External Auditors shall be tabled for the approval of shareholders in general meeting. Alternatively, the Board is allowed to appoint new External auditors where the office of auditors become vacant under the Companies Act 2016.

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## 2.0 Selection guidelines

When assessing the suitability of a potential firm of External Auditors for recommendation to the Board, the ACRMC shall consider, inter-alia:-

- a) the firm's reputation and presence in the industry;
- b) qualifications and experience of the proposed key audit team members;
- c) the firm's international presence through membership in or affiliation with reputable international accounting networks with member firms capable of auditing the Group's overseas subsidiaries or joint ventures;
- d) the firm's audit methodology to be employed in the audit of the Group;
- e) the firm's independent quality control review procedures and the approach to audit judgments;
- f) results of recent inspections on the firm by the Audit Oversight Board, the Malaysian Institute of Accountants ("the MIA") or other regulatory bodies;
- g) the firm's capability to deliver value in ways other than through the provision of statutory audit services; and
- h) the profile of the firm's major clients, including those in the same industry as that of the Group.

## 3.0 Independence of External Auditors

The independence of the External Auditors is essential to the provision of an objective opinion on the financial statements.

Pursuant to Recommendation 8.3 of Principle B of the Malaysian Code on Corporate Governance, the ACRMC is mandated to ensure continuing objectivity and independence of the External Auditors.

The External Auditors are precluded from providing any services that may impair their independence or conflict with their role as External Auditors.

The AC shall obtain a 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.

## 4.0 Non-Audit Engagement

The External Auditors can be engaged to perform non-audit services that are not perceived to be in conflict with their role as External Auditors. Non-audit services do not include audit related work performed in compliance with statutory requirements.

Before appointing the External Auditors to undertake a non-audit service, considerations should be given to whether this would create a threat to the external auditors' independence or objectivity as well as the nature and extent of the non-audit

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services rendered and the appropriateness of the level of fees. The External Auditors should not be appointed unless appropriate safeguards are present to eliminate or reduce the threat to an acceptable level.

The provision of non-audit services by the External Auditors shall be based on the following 3 basic principles:-

- a) the External Auditors cannot perform the role of Management;
- b) the External Auditors cannot audit their own work; and
- c) the External Auditors cannot serve in an advocacy role for the Group.

The External Auditors shall observe and comply with the By-Laws of the MIA in relation to the provision of non-audit services.

All engagements for non-audit services shall be approved by the ACRMC prior to commencement. For each engagement, Management shall obtain written confirmation from the External Auditors that their independence as External Auditors would not be impaired by virtue of the non-audit engagement.

Management shall provide an update to the ACRMC at its quarterly meetings of all non-audit services rendered by the External Auditors since the date of the last ACRMC meeting (including the amount of fees charged).

### **5.0 Rotation of Key Audit Partners**

The Group recognizes that there exists a threat to the External Auditors' independence if there was no limit to the number of consecutive years that key audit partners may serve in the same role in the annual audits of the Group's financial statements.

The By-Laws of the MIA sets out the maximum number of years key audit partners can serve in the same role, as well as the number of "cooling-off" years.

The ACRMC shall ensure that the firm of External Auditors meets or exceeds the requirements of the By-Laws of the MIA relating to the rotation of key audit partners.

### **6.0 Appointment of Former Key Audit Partners as Member of the ACRMC**

No former key audit partner shall be appointed as a member of the ACRMC before first observing a cooling-off period of at least 2 years.

### **7.0 Annual Performance and Independence Evaluation**

The ACRMC shall carry out an annual assessment on the performance, independence and capabilities of the External Auditors as well as the effectiveness of the audit process and may request the Head of Finance to assist in the assessment, by taking into consideration the following:-

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- a) quality and competency of audit services:-
  - adequacy of audit scope;
  - ability to meet audit deadlines;
  - timeliness in escalating audit issues to the ACRMC;
  - allocation of resources to significant audit risk areas; and
  - effectiveness of recommendations to addressing weaknesses observed during the audit;
- b) adequacy of resources;
- c) communication and interaction with Management and the Internal Auditors; and
- d) independence, objectivity and professional skepticism.

### 8.0 Policy review

The management will continue to review this policy and reserves the right at its sole and absolute discretion to update, amend, modify and/or cancel the Policy at any time, and this Policy shall in no way constitute a legally binding commitment by the Company.

