



**TRI-MODE SYSTEM (M) BERHAD**  
**(COMPANY NO: 229265-X)**

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

### **1.0 PURPOSE**

1.1 This Audit and Risk Management Committee's ("the Committee") Terms of Reference ("TOR") is established pursuant to ACE Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Listing Requirements") and approved by the Board. The purpose of the Committee, set up under the Listing Requirements, is to assist the Board in fulfilling its roles and responsibilities with regards to the following:

- a) assessing the risks and control environment;
- b) overseeing financial reporting;
- c) evaluating the internal and external audit process and outcome;
- d) reviewing conflict of interest situations and related party transactions; and
- e) undertake any such other functions as may be determined by the Board from time to time.

### **2.0 COMPOSITION**

2.1 The Committee shall be appointed by the Board from amongst their number, comprising no fewer than three (3) Directors, all of whom shall be Non-Executive Directors. The majority of the Audit and Risk Management Committee members shall be Independent Directors.

2.2 All members of the Committee shall be financially literate and at least one (1) member:

- a) must be a member of the Malaysian Institute of Accountants ("MIA"); or
- b) if he is not a member of the MIA, he must have at least three (3) years working experience and:
  - i. He must have passed the examinations specified in Part I of the First Schedule of the Accountants Act, 1967; or
  - ii. He must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967;
- c) he must fulfil such other requirements as prescribed or approved by Bursa Securities.
- d) if he is a former key audit partner, he only can be appointed to be a member of Audit and Risk Management Committee after a lapse of two (2) years from last audit engagement.

2.3 No alternate Director is appointed as a member of the Committee.

2.4 The members of the Committee shall elect a Chairman from amongst their number who shall be an Independent Director and shall not be the Chairman of the Board.

2.5 In the event of any vacancy in the Committee resulting in the non-compliance of the above requirements, the vacancy must be filled within 3 months.



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2.6 In the absence of the Chairman of the Audit and Risk Management Committee, the other members of the Audit and Risk Management Committee shall amongst themselves elect a Chairman who must be an independent director to chair the meeting.

**3.0 QUORUM AND COMMITTEE'S PROCEDURES**

3.1 Meetings shall be conducted at least four (4) times annually, or more frequently as circumstances dictate.

3.2 Any two (2) members of the Committee present at the meeting shall constitute a quorum with the majority consisting of Independent Non – Executive Directors.

3.3 Upon the request of any member of the Committee, the external auditors or the internal auditors, the Chairman of the Committee shall convene a meeting of the Committee to consider matters brought to its attention.

3.4 The external auditors have the right to appear and be heard at any meeting of the Committee and shall appear before the Committee when required to do so by the Committee.

3.5 The internal auditors shall be in attendance at meetings of the Company to present and discuss the audit findings and the recommendations relating to such findings.

3.6 The Committee may and as and when deemed necessary, invite other Board members and senior management members to attend the meetings.

3.7 It is at the Committee's discretion to meet with the external auditors at least twice (2) a year without the presence of Executive Directors. If the Committee members are satisfied with the reporting practices as well as the level of independence shown by the external auditors, or they are able to clarify matters directly with the external auditors and do not feel the need to convene a meeting, this meeting shall not be held.

3.8 Resolutions of the members of the Committee at a meeting or adjourned meeting of the Committee shall be adopted by a majority of votes of all members present. In the event matters requiring the Committee's decision arise between meetings, such matters shall be resolved through circular resolution which shall be supported by relevant papers setting out details of the subject matters. The members of the Committee may obtain more information from Management and express their view points by facsimile, electronic mail or any other means of telecommunication before arriving at a decision on the subject matter. All such resolution shall be signed by all the members of the Committee and shall be submitted for confirmation at a meeting of the Committee following the passing of the circular resolutions.



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**4.0 SECRETARY OF THE COMMITTEE**

4.1 The Company Secretary shall be the Secretary of the Committee.

4.2 The Secretaries of the Committee shall be present to record proceedings of the Committee meetings.

4.3 The Secretary of the Committee shall have the following responsibilities:

- a) ensuring meetings are arranged and held accordingly;
- b) assisting the Chairman of the Committee in planning and drafting the Committee's activities for the financial year;
- c) drawing up meeting agenda in consultation with the Chairman of the Committee, and circulate the agenda, together with the relevant papers, at least seven (7) days prior to each of the Committee meeting;
- d) ensuring structured communication between the Board and the Committee;
- e) ensuring proceedings of meetings are minuted and endorsed by the Chairman of the Committee before disseminating them to all Board members; and
- f) ensure the Committee's recommendations presented to the Board are supported by explanatory papers, including report of the Committee or minutes that explains the rationale of the Committee's recommendations.

**5.0 AUTHORITY AND RIGHTS**

5.1 The Committee shall, in accordance with a procedure to be determined by the Board and at the expense of the Company;

- a) have explicit authority to investigate any matter within its terms of reference, the resources to do so, and full access to information. All employees shall be directed to co-operate as requested by members of the Committee.
- b) have full and unlimited/unrestricted access to all information and documents/resources which are required to perform its duties as well as to the internal and external auditors and senior management of the Company and Group.
- c) have direct communication channels with the external and internal auditors;
- d) be able to obtain independent professional or other advice and to secure the attendance of outsiders with the relevant experience and expertise if it considers this necessary;
- e) where the Committee is of the view that the matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements, the Committee shall promptly report such matter to Bursa Securities;



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- f) be able to convene meetings with the external auditors, the internal auditors or both, without the presence of the other Directors and employees of the Company, whenever deemed necessary; and
- g) meet exclusively among itself, whenever deemed necessary.

## **6.0 REPORTING**

6.1 The Committee shall report to the Board on matters considered and its recommendation thereon, pertaining to the Group through:

- a) copies of minutes of the Committee supported by explanatory papers and being circulated to all Board members once endorsed by the Chairman of the Committee; and
- b) the Chairman of the Committee drawing to the Board's attention any matter of major importance.

## **7.0 DUTIES AND RESPONSIBILITIES**

### **7.1 Assessing the risks and control environment**

- a) to review the sufficiency and effectiveness of the Group's overall enterprise risk management framework, strategies, policies and systems; and
- b) to assess the effectiveness of the system of internal control i.e. the risks, control environment and compliance requirements of the Group, based on the results of the external and internal audits and assurances from the respective responsible persons.

### **7.2 Overseeing financial reporting**

- a) to review the quarterly results and the year – end financial statements of the Group prior to approval by the Board, focusing particularly on:
  - i. changes in or implementation of major accounting policies;
  - ii. significant and unusual events and adjustments; and
  - iii. compliance with the applicable financial reporting standards and other legal requirements.
- b) to review and recommend any policies relating to accounting, finance and internal control and endorse for the Board's approval; and
- c) to review the Audit and Risk Management Committee Report and Risk Management & Internal Control Statement for inclusion in the Company's Annual Report and recommend to the Board for approval.

### **7.3 Evaluating the internal and external audit processes and outcome**

- a) to review with the external auditors the following:
  - i. their audit plan and ensure coordination where more than one audit firm is involved;
  - ii. their evaluation of the system of internal controls;



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- iii. their audit report;
  - iv. problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of management where necessary);
  - v. key audit matters to be included in the auditors' report;
  - vi. the management letter and management's response; and
  - vii. the adequacy of assistance given by Group employees to the external auditors.
- b) to review any letter of resignation from the external auditors and report the same to the Board;
  - c) to review whether there is any reason that the external auditor is not suitable for reappointment, and make relevant recommendation to the Board;
  - d) to recommend the nomination of a person or persons as external auditors, including matters relating to the audit fee;
  - e) to ensure the proper policies and procedures are established and to assess the suitability and independence of external auditors, including obtaining written assurance from external auditors confirming they are, and have been, independent throughout the conduct of audit engagement in accordance with the terms of reference of all relevant professional and regulatory requirement;
  - f) to set policy on non – audit services which may be provided by the external auditors, and condition and procedures which must be adhered to by the external auditors in the provision of such services
  - g) to review engagement of non – audit services by the external auditors to ensure that their independence is maintained; and
  - h) in relation to the Group's internal audit function, to undertake the following:
    - i. review the adequacy of the scope, functions, competency, resources and budget of the Group's internal audit function and that it has the necessary authority to carry out its work, and report or make relevant recommendations to the Board;
    - ii. approve the internal audit plan and review the results of the internal audit plan or investigation undertaken and whether or not appropriate action is taken on the recommendations of the Group's internal audit function, and report or make relevant recommendations to the Board;
    - iii. review the effectiveness of the Group's internal audit function including compliance with the Institute of Internal Auditors' International Standards For The Professional Practice of Internal Auditing and make recommendations necessary for improvement of the internal audit function;
    - iv. review any appraisal of or assessment of the performance of the Group's internal audit function; and
    - v. approve any appointment or removal of the internal auditors / outsource internal auditors.

**7.4 Reviewing conflict of interest situations and related party transactions (including recurrent related party transactions)**



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- a) to review any conflict of interest situation and related party transaction that may arise within the Group including any transaction, procedure or course of conduct that raises questions of management integrity;
- b) in respect of related party transaction, including recurrent related party transactions, to:
  - i. ensure that the Group has adequate procedures and processes to identify, and where relevant, monitor and track related party transactions in a timely manner, and to review these procedures and processes annually;
  - ii. assess the sufficiency of the procedures, policies and terms of the related party transactions to ensure that the transactions are fair, reasonable and on normal commercial terms; are not more favorable to the related party than those generally available to the public and are not detrimental to minority shareholders and in the best interest of the Group;
  - iii. where the related party transactions are not comparable to quotations or comparative pricing with unrelated third parties, to review the basis of the transaction price determined by the management in comparison to transactions by/ to unrelated parties for substantially similar type transaction for approval by the Board; and
  - iv. related party transactions and conflict of interest situations shall be a permanent agenda item of the Committee meeting.

## **8.0 THE COMMITTEE'S PERFORMANCE**

8.1 On an annual basis, the Board shall evaluate the Committee's performance and extent to which the Committee has met the requirements of its Terms of Reference. This performance assessment may constitute a part of the annual Board Effective Assessment, pertaining to the assessment of Board Committees.

## **9.0 THE COMMITTEE'S ETHICS AND PROCEDURES**

9.1 All members of the Committee shall safeguard all internal communications and treat them as strictly private and confidential, and for the use of the Committee members only. The Committee shall work diligently amongst the members of the Board and adhere to all applicable laws and regulations as well as the prescriptions rendered in the Code of Conduct and Ethic.

## **10. REVIEW OF THE TERMS AND REFERENCE**

10.1 The Committee Terms of Reference shall be reviewed periodically, especially when there are changes to the Listing Requirements, the Malaysian Code on Corporate Governance 2017 and Companies Act 2016 or at least once every (3) years. All amendments to the Terms of Reference of the Committee must be approved by the Tri Mode Board.