

**HSS Engineers Berhad  
(Company No. 1128564-U)**

**Audit and Risk Management Committee (“ARMC”)  
Terms of Reference**

**1. INTRODUCTION**

1.1 The Audit and Risk Management Committee (“the Committee”)’s Terms of Reference (“TOR”) sets out the requirements of the Board of Directors of HSS Engineers Berhad for the establishment of an Audit and Risk Management Committee and the delegation of responsibilities to such a Committee.

**2. FUNCTIONS**

2.1 The Committee’s TOR is established pursuant to the Main Market Listing Requirements (“MMLR”) of Bursa Malaysia Securities Berhad (“Bursa Securities”) and is approved by the Board.

2.2 The Committee is to assist the Board of Directors in fulfilling its fiduciary duties as well as the following oversight objectives on the activities of the Group, comprising HSS Engineers Berhad and its subsidiaries:

2.2.1 Assist the Board of Directors in meeting its responsibilities relating to accounting and reporting practices of the Group;

2.2.2 Oversee financial reporting;

2.2.3 Assess the risks and control environment;

2.2.4 Evaluate the internal and external audit processes and outcomes including issues pertaining to the system of internal control and risk management within the Group;

2.2.5 Review conflict of interest situations and related party transactions;

2.2.6 Maintain open lines of communication between the Board of Directors, the internal auditors for the exchange of views and information, as well as to confirm their respective authority and responsibilities

2.2.7 Undertake any such other functions as may be determined by the Board from time to time.

**3. MEMBERS**

3.1 The Committee members shall be appointed by and from the Board of HSS Engineers Berhad and shall comprise of not less than three (3) members.

3.2 All the members of the Committee must be Independent Non-Executive Directors.. In this respect, the Board adopts the definition of “independent directors” under the MMLR of Bursa Securities..

3.3 No Alternate Director shall be appointed as a member of the Committee.

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- 3.4 At least one member of the Committee must be a member of the Malaysian Institute of Accountants (“MIA”) or if he is not a member of MIA, he must have at least three (3) years of working experience and:
- he must have passed the examinations specified in Part I of the 1<sup>st</sup> Schedule of the Accountants Act 1967; or
  - he must be a member of the associations of accountants specified in Part II of the Accountants Act 1967; or
  - fulfils such other requirements as prescribed or approved by Bursa Securities.
- 3.5 All members of the Committee shall be financially literate and are able to understand matters under the purview of the Committee including the financial reporting process. All members of the Committee should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.
- 3.6 In the event of any vacancy in the Committee (including Chairman) resulting the non-compliance of the above, the Board shall upon the recommendation of the Nomination Committee fill the vacancy within three (3) months of that event.
- 3.7 For engagement of a former key audit partner as member of the Committee, there must be a cooling-off period of at least two years before being appointed as a member of the Committee.

**4. CHAIRMAN OF THE COMMITTEE**

- 4.1 The Chairman of the Board shall not be the Chairman of the Committee. The Chairman of the Committee must be an Independent Non-Executive Director elected among the members of the Committee.

**5. POWERS AND AUTHORITY**

- 5.1 The Board authorises the Committee, within the scope of its duties and responsibilities set out in this TOR to:
- 5.1.1 Investigate any activity or matter within its terms of reference;
  - 5.1.2 Have full and unrestricted access to information, records, properties and personnel within the Group;
  - 5.1.3 Obtain relevant internal and external independent professional to assist in the proper discharge of its roles and responsibilities; advice, as it deems necessary at the expense of the Company;
  - 5.1.4 Maintain direct communication with the external auditors and internal auditor and with Key Management of the Group; and

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5.1.5 Convene meetings with the external auditors, internal auditors without the presence of other directors and employees of the Group, whenever deemed necessary.

**6 QUORUM AND MEETING GUIDELINES OF THE COMMITTEE**

6.1 In order to form a quorum, minimum two (2) members must be present at the meeting.

6.2 In the absence of the Chairman, the members present shall elect a Chairman for the meeting amongst the members present.

6.3 The Committee meetings shall be conducted at least four (4) times annually, or more frequently as circumstances dictate and at least twice a year the Committee shall meet with the external and internal auditors without executive Board members and Management present.

6.4 The Chairman may call for a meeting of the Committee if a request is made by any Committee member, the Group Chief Executive Officer or the internal or external auditors.

6.5 The Committee meetings shall be governed by the provisions of the Company’s Articles of Association relating to Board meetings unless otherwise provided for in this TOR. The Committee may establish procedures from time to time to govern its meetings, keeping of minutes and its administration.

6.6 The Committee may request other Directors, members of Board committees, the Group CEO, the Chief Financial Officer, Key Management, counsels and consultants when applicable and necessary to participate in the meetings, to assist in carrying out the Committee’s responsibilities.

6.7 A member of the Committee shall excuse himself/herself from the meeting during discussions or deliberations of any matter which gives rise to an actual or perceived conflict of interest situation for him. Where this causes a lack of quorum, the Committee shall appoint another candidate(s) who meets the membership criteria.

6.8 A member of Committee may participate in a meeting of by means of a telephone conference or video conference or any other means of audio-visual communications and the person shall be deemed to be present in person at the meeting and shall be entitled to vote or be counted in a quorum accordingly.

6.9 The notice and agenda for each Committee meeting shall be sent to all members of the Committee and any other persons who may be required to attend the meeting within 5 days prior to the meeting

6.10 The Chairman of the Committee shall report to the Board on any matter that should be brought to the Board’s attention and provide recommendations of the Committee that require the Board’s approval at the Board meeting.

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- 6.11 The Chairman shall submit an annual report to the Board, summarising the Committee’s activities during the year and the related significant results and findings thereof, including details of relevant training attended by each Committee member.
- 6.12 The Committee shall regulate the manner of proceedings of its meetings, having regard to normal conventions on such matter. 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.

**7 SECRETARY OF THE COMMITTEE**

- 7.1 The Company Secretary or his/her representative or other appropriate senior officer shall act as secretary of the Committee (“the Secretary”).
- 7.2 The Secretary or his/her representative or other appropriate senior officer shall be present to record and minute all proceedings of the Committee meetings.
- 7.3 The Secretary shall have the following responsibilities:
- 7.3.1 Ensure all meetings are arranged and held accordingly;
  - 7.3.2 Draw up meeting agenda in consultation with the Chairman and circulate the agenda together with the relevant papers within 5 days prior to each meeting to enable full and proper consideration be given to issues;
  - 7.3.3 Prepare the minutes of the Committee meetings within one (1) month from the date of each Committee meeting and record the conclusions of the Committee in discharging its duties and responsibilities;
  - 7.3.4 Ensure the minutes are endorsed by the Chairman before circulating promptly to all members of the Committee and make the same available to Board members who are not members of the Committee; and
  - 7.3.5 Ensure that the minutes of the Committee meetings are properly produced and kept at the registered office of the Company. The minutes shall be open for inspection by the Board. Any request by Management or other persons to inspect the minutes shall be subjected to the approval of the Committee. for inspection if required.

**8. DUTIES AND RESPONSIBILITIES**

- 8.1 Risk Management and Internal Control
- 8.1.1 Review the risk profile of the Group (including risk registers) and the Company’s risk management plans to mitigate business risks

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identified from time to time in order to safeguard shareholders' investments and the Company's assets.

8.1.2 Assess the effectiveness of the system of internal controls, i.e. the risks, control environment and compliance requirements based on the results of the external and internal audits.

8.1.3 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.

8.1.4 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.

8.1.5 Conduct an annual review and periodic testing of the Company's internal control and risk management framework.

8.1.6 Provide routine updates to the Board on key risk areas and ways to mitigate or manage those risks.

8.2 Financial Reporting and Compliance

8.2.1 Review the Committee's TOR as conditions dictate.

8.2.2 Review major audit findings and Management's response during the year with Management, external auditors and internal auditor, including the status of previous audit recommendations.

8.2.3 Review the assistance given by the Group's officers to the auditors, and any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information.

8.2.4 Review the quarterly results and the year-end financial statements of the Group prior to approval by the Board, focusing particularly on:

- changes in or implementation of major accounting policy changes;
- significant matters highlighted including financial reporting issues, significant judgements made by Management, significant and unusual events or transactions and how these matters are being addressed;
- the going concern assumption; and
- compliance with accounting standards and other legal requirements.

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- 8.3 Evaluate the internal and external audit processes and outcomes
- 8.3.1 review with the external auditors on their audit plan, their evaluation of the system of internal controls, audit report, problems and reservations arising from the interim and final audits, the management letter and management’s response and the adequacy of assistance given by the Group’s employees.
- 8.3.2 Review any letter of resignation from the external auditors and report the same to the Board.
- 8.3.3 Review whether there is any reason that the external auditor is not suitable for reappointment and make the relevant recommendation to the Board.
- 8.3.4 Recommend the nomination of a person or persons as external auditors, including matters related to audit fees. In considering the appointment or re-appointment of the external 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 Group being audited;
  - (v) the number and experience of supervisory and professional staff assigned to the particular audit;
- 8.3.5 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 requirements.
- 8.3.6 Ensure the external auditors able to meet the deadlines in providing services and responding to issues in a timely manner as contemplated in the external audit plan.
- 8.3.7 Ensure the competence, audit quality and resource capacity of the external auditors in relation to the audit.
- 8.3.8 Consider any concerns raised by external auditors in respect of breach or non-performance of any requirement or rules that may materially affect the financial position of the Company.
- 8.3.9 Review non-audit services which may be provided by the external auditors (e.g. contract and nature) and the fee for such service. In the event that the non-audit fees paid to the external auditors are significant (e.g. constitute 50% of the total amount of audit fees paid to the external auditors), the Company is required to state the details

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on to the nature of non-audit services rendered in the Committee Report.

8.3.10 In respect of the Group’s internal audit function (provided by a reputable internal audit service provider), to undertake the following and reports directly to the ARMC:

- a) review the adequacy of the scope, competency, functions, plans, resources and budget of the Group’s internal audit function;
- b) approve the internal audit plan and review the results of the internal audit plan and decide whether or not appropriate actions are taken and report to the Board;
- c) review the effectiveness of the Group’s internal audit function and make recommendations necessary for the improvement of the internal audit function;
- d) review any appraisal of or assessment of the performance of the Group’s internal audit function;
- e) approve any appointment or removal of the Internal Auditor;
- f) ensure the internal audit function is independent of the activities it audits and the head of internal audit / the internal audit service provider (for outsourced internal audit) reports functionally to the Committee directly and review their performance on an annual basis. The head of internal audit/the internal audit service provider should have the relevant qualifications and be responsible for providing assurance to the Committee that the internal controls are operating effectively. The head of internal audit / the internal audit service provider shall be responsible for the regular review and/or appraisal of the effectiveness of the risk management, internal control, and governance processes within the Company; and
- g) take cognisance of resignations of internal audit staff members (for in-house internal audit function) or the internal audit service provider and provide the resigning staff member or the internal audit service provider an opportunity to submit his reasons for resigning.

8.4 Review conflict of interest situations and related party transactions (including recurrent related party transactions)

8.4.1 Review any conflicts of interest and related party transactions including recurrent related party transactions that may arise within the Group, including any transaction, procedure or course of conduct that raises question on Management’s integrity;

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8.4.2 Ensure that the Group has adequate procedures and processes in place to monitor and track related party transactions and to review these processes;

8.4.3 Oversight any conflict of interest or potential conflict of interest situation that may arise.

**8.5 Other responsibilities & safeguards**

8.5.1 Review the Company’s Annual Report including approving the Statement on Risk Management and Internal Control, the Statement on Corporate Governance and other statements related to strategy, financials and performance for inclusion in the Annual Report and recommend to the Board for approval.

8.5.2 The Chairman of the Committee should attend the Annual General Meeting to answer any shareholder’s questions on the Committee’s activities, roles and responsibilities.

**9. REPORTING**

9.1 The Committee shall regularly update the Board about its activities and make recommendations through copies of minutes of each meeting and circulate to all Board members once endorsed by the Chairman;

9.2 The Committee shall be responsible in ensuring that the Company discloses in its Annual Report the Committee Report for the financial year. The Committee must disclose how it has met its responsibilities in discharging its functions and duties for the financial year (Rule 15.15(3)(d)).

9.3 The Committee Report in the Annual Report will no longer need to disclose the TOR of the Committee, the key functions, roles and responsibilities.

9.4 Instead the Committee must have written terms of reference which deal with its authority and duties and such information must be made available on the Company’s website.

9.5 The Committee Report must include the composition of the Committee, including the name, designation (indicating the chairman) and directorship of the members (whether independent or otherwise); the number of meetings held and details of attendance of each audit committee member; a summary of the work of the Committee in the discharge of its functions and duties for that financial year and how it has met its responsibilities; and a summary of the work of the internal audit function.

**10. PERFORMANCE**

10.1 On an annual basis, the Board of Directors must via the Nomination Committee review and evaluate the term of office and performance of the Committee to determine whether the Committee and its members have carried out their duties in accordance with their terms of reference.



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**11. REVISION OF THE TERMS OF REFERENCE**

- 11.1 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.
- 11.2 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.
- 11.3 The duly revised or amended Terms of Reference shall be disclosed on the Company’s website.

**12. APPROVAL**

- 12.1 This Terms of Reference is reviewed and approved by the Board of Directors on 26 March 2018.