

# **Policy on External Auditor**

Inari Amertron Berhad

## **POLICY ON EXTERNAL AUDITOR**

### **1. Introduction**

The Board of Directors (the “Board”) including the Audit Committee of Inari Amertron Berhad (“Inari” or the “Company”) is committed in ensuring the suitability, objectivity and independence as well as the sound performance of the external auditor.

The Company, through the Audit Committee has established a transparent and formal relationship with the external auditor who is ultimately accountable to the Company’s shareholders. The Company’s external auditor plays an essential role in providing credibility to the financial statements by performing the requisite audit procedures so as to have a reasonable basis for the opinion that they render on the financial statements.

The objective of the Policy on External Auditor (“this Policy”) is to outline guidelines and procedures for the Audit Committee to assess and monitor the external auditor in order to preserve the integrity and credibility of the external audit process.

#### **1.1 Scope and application**

This Policy should be read together with the relevant enumerations encapsulated in the following legislations:

- (i) Companies Act 2016;
- (ii) Capital Markets and Services Act 2007 (Amendment 2012); and
- (iii) Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Listing Requirements”).

Where there is a conflict between the contents of this Policy and the aforementioned legislations, the relevant enumerations contained in the said legislations shall prevail.

This Policy is also developed in alignment with the Malaysian Code on Corporate Governance (“MCCG”), and the By-Laws (on Professional Ethics, Conduct and Practice) by the Malaysian Institute of Accountants (“MIA”).

#### **1.2 Definitions**

These terms are ascribed with the following definitions in relation to this Policy:

**External audit** – services in relation to the statutory audit of the financial statements.

**Key audit partner** – the engagement partner, the individual responsible for the engagement of quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the external auditor will express an opinion.

**Independence in appearance** – the avoidance of facts and circumstances where a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude that the individual’s integrity or objectivity has been compromised.

**Independence of mind** – refers to the state of mind that enables individuals to exercise professional judgment without undue influence so that they are allowed to act with integrity and to be objective.

**Non-audit services** - services that are not related to the performance of the statutory audit.

**Objectivity** – a state of mind that imposes upon an individual the obligation to be impartial and free from conflicts of interest.

## 2. Appointment and removal of external auditor

The Audit Committee has been entrusted with the responsibility of recommending the appointment or re-appointment of the external auditor for the concurrence of the Board prior to being tabled as a resolution for the approval of shareholders at the Annual General Meeting (“AGM”).

Shareholders shall at each AGM (by way of an ordinary resolution) appoint the external auditor and the external auditor appointed shall hold office until the conclusion of next AGM of the Company [*Section 271(3) and (4) of Companies Act 2016*]. Shareholders (by way of an ordinary resolution and a special notice) are also entitled to remove the external auditor at any time [*Section 276(1) of Companies Act 2016*].

In the event of a resignation of the external auditor, the Audit Committee alongside the Board shall review the letter of resignation from the external auditors and send a copy of the resignation notice and representations made by the external auditor to the Registrar of the Companies Commission of Malaysia and the Exchange within seven days from the date of resignation [*paragraphs 15.12 and 15.22 of Listing Requirements; and Section 282 of Companies Act 2016*].

### 2.1 Assessment of external auditor

The Audit Committee’s recommendation on the appointment of external auditor to the Board shall be anchored on a defined set of criteria. In addition to the aspects of independence and objectivity, the Audit Committee when appointing an external auditor, shall amongst others consider:

- (i) the adequacy of the experience and resources of the external audit firm;
- (ii) the persons assigned to the external audit engagement;
- (iii) the external audit firm’s audit engagements;
- (iv) the size and complexity of the subject matter being audited; and
- (v) the number and experience of supervisory and professional staff assigned to the particular external audit engagement.

*[paragraph 15.21 of Listing Requirements]*

Annually, the Audit Committee shall review the re-appointment of the external auditor and ascertain whether there is reason (supported by grounds) to believe that the external auditor is not suitable for re-appointment [*paragraph 15.12(1) of Listing Requirements*]. If the external auditor is deemed to be not suitable, the Audit Committee should source for alternative external audit firms via a formal tender process and make recommendations to the Board. In

conducting this assessment, the Audit Committee shall also gather feedback from the Group Chief Financial Officer and other relevant Senior Management personnel.

In assessing the quality of services rendered by the external auditor during the year under review, the Audit Committee may be guided by the following non-exhaustive indicators:

- (i) adequacy of audit scope;
- (ii) ability of the external audit firm to meet audit deadlines;
- (iii) timeliness in escalating audit issues to the audit committee;
- (iv) allocation of resources to significant audit risk areas; and
- (v) effectiveness of the external audit firm's recommendations in addressing weaknesses observed during previous audits, particularly on internal controls relevant to financial reporting process.

The evaluation form for assessing the external auditor is outlined in Appendix 1 of this Policy.

## 2.2 Remuneration of external auditor

The Board shall be authorised by shareholders at the AGM to fix the remuneration of the external auditor [*Section 274(1) of Companies Act 2016*]. Remuneration in this context includes sums paid in respect of expenses and payment otherwise than cash [*Section 274(2) of Companies Act 2016*]. In determining the remuneration of the external auditor, the Board shall consult the Audit Committee.

The Audit Committee shall take into consideration the industry benchmarks when assessing the remuneration that should be accorded to the external auditor. The Audit Committee shall ensure that the remuneration awarded to the external auditor is commensurate with the scope of the audit, considering the required resources, skills and knowledge needed to complete the external audit engagement, and the responsibilities of the external auditor.

Inari and its subsidiaries (collectively referred to as the "Group") shall not enter into any contingent fee arrangement relating to the outcome of a transaction or the result of the services performed with the external auditor [*Provisions 290.225 of By-Laws (on Professional Ethics, Conduct and Practice) by the MIA*].

## 2.3 Independence of external auditor

The Audit Committee shall review the independence of the external auditor annually, and the Audit Committee shall consider whether the external auditor is independent both in mind and in appearance.

In ensuring the independence of external auditor, the Audit Committee shall obtain written assurance from the external auditor, confirming that the external auditor is, and has been, independent throughout the conduct of the audit engagement<sup>1</sup> with the Company in accordance with the independence criteria set out by MIA. [*Guidance to Practice 8.3 of MCCG*].

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<sup>1</sup> From the start of the audit engagement to the date the audit report is issued

## 2.4 Provision of non-audit services

The external auditor can be engaged to perform non-audit services that are not, and are not perceived to be, in conflict with the role of the external auditor. This excludes audit related work in compliance with statutory requirements.

2.4.1 The prohibition of non-audit services is predicated on the following basic principles:

- (i) external auditor cannot function in the role of Management;
- (ii) external auditor cannot audit their own work; and
- (iii) external auditor cannot serve in an advocacy role of the Group.

2.4.2 The external auditor shall also observe and comply with the By-Laws (on Professional Ethics, Conduct and Practice) by MIA in relation to the provision of non-audit services, which include a prohibition on the following:

- (i) accounting and book keeping services;
- (ii) valuation services if the valuations would have a material effect on the financial statements;
- (iii) internal audit services;
- (iv) design or implementation of information systems services;
- (v) litigation support services in resolving a dispute or litigation when the amount involved is material;
- (vi) recruitment services; and
- (vii) corporate Finance services which involve promoting, dealing in, or underwriting shares.

*[Provisions 290.172 to 290.219 of By-Laws (on Professional Ethics, Conduct and Practice) by the MIA]*

2.4.3 Examples of non-audit services that may be provided by the external auditor include the following:

- (i) advice and assurance on the interpretation and implementation of accounting standards, financial reporting matters, tax and governance regulations;
- (ii) advice and assurance in respect of direct and indirect tax related matters;
- (iii) due diligence investigations related to potential acquisitions, disposals or joint ventures and fund raising exercises;
- (iv) Review on statement of risk management and internal control; and
- (v) Attestation reports as required by third parties.

2.4.4 Management shall obtain written assurance from the external auditor that the independence of the external auditor will not be impaired by the provision of non-audit services.

## 2.5 Limitation of the fees of non-audit services

When the total fees from the non-audit services represent a large proportion of the total fees of the external auditor expressing the audit opinion, concerns of independence and objectivity will arise as a result of over-reliance on the fee generated and the familiarity developed with the Group.

If the fees for non-audit services in any financial year exceed the sum of audit fees, approval shall be seek from the Audit Committee, and the Board shall be notified at the next scheduled Board meeting or via a circular resolution.

The Group shall not enter into any contingent fee direct or indirectly in respect of any non-audit services provided by the external auditor [*Provisions 290.226 of By-Laws (on Professional Ethics, Conduct and Practice) by the MIA*].

If the fees on the non-audit services performed by the external auditor are significant, details on the nature of the services rendered shall be disclosed. Generally, if the non-audit fees constitute 50% of the total amount of audit fees paid to their external auditors, then such non-audit fees are regarded as significant [*Item 9.47A of the Questions and Answers in relation to Listing Requirements*].

The amount of non-audit fees paid or payable to the Company's external auditor, or a firm or corporation affiliated to the auditors' firm shall also be disclosed in the annual report, stating the amount incurred on a Group (Inari and its subsidiaries) basis. If no non-audit fees were incurred, a statement to that effect shall be disclosed [*Paragraph 18, Part A, Appendix 9C of Listing Requirements*].

## 2.6 Appointment of former key audit partner and employees of the external audit firm

Key audit partners will not be appointed as a member of the Audit Committee by the Group within two years of undertaking any role in the audit or past audit of the Group [*Practice 8.2 of Malaysian Code on Corporate Governance*].

Other key team members will not be appointed as a member of the Audit Committee by the Group within one year of undertaking any role on the external audit unless pre-approved by the Board.

Other audit team members (excluding key audit partners or key audit team members) who accept employment or are appointed as a member of Audit Committee of the Group must cease the audit activity immediately and tender their resignation to the external audit firm.

Any appointment of a former employee of the external audit firm in respect of a member of the Audit Committee must be pre-approved by the Board.

Between meetings, the Board Chairman, in consultation with the AC members, has the delegated authority to deal with such appointments at his or her discretion. Any such interim approval must be ratified at the next meeting of the Board.

## 2.7 Rotation of audit partner from the audit engagement

The audit partner responsible for the external audit of the Company is subject to rotation at least once every 5 years. [*Provisions 290.154 of By-Laws (on Professional Ethics, Conduct and Practice) by the MIA*]

### **3. Review and amendment**

The Audit Committee shall review and amend this Policy from time to time or as and when necessary, to be in line with legislative promulgations such as Companies Act 2016, Capital Markets and Services Act 2007 (Amendment 2012) and Listing Requirements whilst also taking into account the enumerations of the MCCG and the By-Laws (on Professional Ethics, Conduct and Practice).

All revisions or amendments to this Policy shall be approved by the Board.

Date: 28 August 2018

## Appendix 1

### **External Auditor Evaluation Form (To be completed ONLY by Audit Committee (“AC” members))**

The External Auditor Evaluation criteria are developed based on emerging and leading practices to facilitate Audit Committee’s evaluation of the external auditor’s performance. The criteria are derived from roles and responsibilities of external auditors mentioned in the Bursa Securities Main Market Listing Requirements and the Malaysian Code on Corporate Governance as well as other relevant provisions such as the By-Laws (on Professional Ethics, Conduct and Practice) by the Malaysian Institute of Accountants.

The evaluation may be conducted in the following manner:

1. Company Secretaries distribute the evaluation form (“Form”) to all the AC members during the 4<sup>th</sup> quarter of each financial year;
2. The AC members complete the Form based on their knowledge, understanding and observations of external auditor’s activities and dynamics for the financial year under review
3. The Company Secretary compiles the results from the evaluation and presents it to the AC Chairman; and
4. The AC Chairman reviews the results and tables to the Board the outcome of the evaluation.

### **Background information**

Name of External Auditor: \_\_\_\_\_

Financial year: \_\_\_\_\_

Date of evaluation: \_\_\_\_\_

The Evaluation Form provides questions requiring 5-scale ratings from one (1) to five (5) or with the indicators illustrated below, to be responded in relation to the nature of the questions:

1	2	3	4	5
No	Yes, but seldom	Yes, usually	Yes, most of the time	Yes, always
or				
Poor	Below average	Average	Above average	Exceptional

Respond by ticking the selected rating for each statement/question on the following page.



No.	Evaluation criteria	1	2	3	4	5	Comments
<b>Section A: Calibre of external audit firm</b>							
1.	What is the reputation of the external audit firm? Are there recent or current litigation cases against the firm?						
2.	Does the external audit firm have the size, resources and geographical coverage required to audit the Company?						
<b>Total for Section A</b>							
<b>Section B: Quality processes/performance</b>							
3.	How are the quality control processes maintained in the external audit firm? Factors to be considered include the level and nature of review procedures, the approach to audit judgments and issues, independent quality control reviews and the external audit firm's approach to risk.						
4.	How have key risks, including fraud risk and financial misstatement risk, being discussed and factored into the audit plan?						
5.	How key audit individuals at the external audit firm are compensated and evaluated, and do these compensation and evaluation schemes run the risk of impairing the external auditor's independence?						
6.	How is the external audit firm's process for internal review of accounting judgments, including an understanding of the key issues?						
7.	How are relevant specialists/experts being employed by the external audit firm and how are these linked to the audit process?						
8.	How multiple-location audits and/or overseas audits are controlled and is audit effectiveness regarded as consistent internationally?						
9.	Are the reporting processes for subsidiary audit teams effective?						
10.	How is the external audit firm's approach to seeking and assessing management representations?						
11.	In cases where there are any differences in views between management and the external auditor, does the external auditor communicate its view clearly and accurately from an accounting perspective?						
12.	Does the audit committee agree with the bases and extent of reliance external auditors place on management and internal audit testing, if any? (Comment as 'N/A' if none)						

No.	Evaluation criteria	1	2	3	4	5	Comments
13.	Does the external auditor have an effective working relationship with internal audit?						
14.	Did the auditors meet the performance targets, i.e. audit scope, audit plan, timing, etc.?						
<b>Total for Section B</b>							
<b>Section C: Audit team</b>							
15.	Rate whether the audit engagement partner and individuals assigned to the external audit team have the requisite skills and expertise, including industry knowledge, to effectively audit this company and meet its requirements.						
16.	Is the lead engagement partner able to provide a clear and understandable explanation on auditing and accounting issues faced by the company?						
17.	What is the scope of the audit engagement partner's/other senior personnel's involvement in the audit process and is this sufficient?						
<b>Total for Section C</b>							
<b>Section D: Independence and objectivity</b>							
18.	Does the external audit firm communicate to the company on any matters which might reasonable be perceived to affect the independence of the firm and/or of individuals assigned to the external audit team?						
19.	Does the external audit firm have adequate key member succession plans in place, which meet the relevant audit partner rotation requirements and facilitate the maintenance of objectivity?						
20.	Does the external audit firm discuss with the company on safeguards in place to detect and resolve independence issues?						
21.	Prior to approval by the audit committee on non-audit services to be rendered by the external audit firm (in the case of exceeding the audit fees), does the lead engagement partner explain and discuss safeguards in place to protect against impairment to independence and objectivity of the external audit firm?						
<b>Total for Section D</b>							
<b>Section E: Audit scope and planning</b>							
22.	Does the external audit firm, with the audit engagement partner present, agree the audit scope and plan with the audit committee?						

No.	Evaluation criteria	1	2	3	4	5	Comments
23.	Is the external audit scope and plan adequate to address company/industry-specific areas of accounting risks, audit risks and financial reporting risks facing the company?						
24.	In planning the audit, are adequate considerations given to geographical coverage, resources allocation, level of audit testing and the nature of the audit reports issued at each location?						
25.	Is specialist input to the audit in areas such as taxation, pensions and regulation at an appropriate level?						
26.	Are all key operations covered by the external audit?						
27.	Did the auditors maintain or update the audit plan to respond to changing risks and circumstances, in a manner agreeable and determined appropriate by the audit committee?						
<b>Total for Section E</b>							
<b>Section F: Audit fee</b>							
28.	Is the external audit fee reasonable given the scope of the external audit, the size, complexity and risks of the Company?						
29.	How does the audit fee compare with other similarly sized companies in this industry?						
30.	Rate how the differences between actual and estimated fees are handled.						
31.	Is an assessment made of the amount and relationship of audit and non-audit fees and services, in the case whereby non-audit services fee exceeds that of audit?						
<b>Total for Section F</b>							
<b>Section G: Audit communications</b>							
32.	Does the external audit firm meet freely, regularly, and on a confidential basis with the audit committee, including being able to communicate to the audit committee if not being provided with sufficient cooperation during the audit?						
33.	Does the external audit engagement partner maintain professional and open dialogues with the audit committee and communicate findings and discussions in a frank and complete manner (including matters on management's reporting process, internal control over financial reporting, etc.)?						
34.	Does the external audit firm advise the audit committee about significant issues and new developments regarding risk management, corporate governance,						

No.	Evaluation criteria	1	2	3	4	5	Comments
	financial accounting and related risks and controls on a timely basis?						
35.	Does the external auditor discuss the critical accounting policies and whether the accounting treatment is conservative or aggressive?						
36.	Does the external audit firm discuss with the audit committee the quality of the Company's financial reporting, including the reasonableness of accounting estimates and judgments?						
37.	Does the external audit firm resolve accounting issues in a timely manner?						
38.	Does the external audit firm seek feedback on the quality and effectiveness of the service they are providing?						
	<b>Total for Section G</b>						
	<b>Overall total (Section A + B + C + D + E + F + G)</b>						
	<b>Scoring (Overall total/ total number of questions applicable x 5)</b>						

<b>Other Comments on External Auditors</b>

Evaluation carried out by:

\_\_\_\_\_

Name:

Designation: