

**HIBISCUS PETROLEUM BERHAD**  
**Registration Number : 200701040290 (798322-P)**  
**(“Hibiscus Petroleum” or the “Company”)**

**AUDIT AND RISK MANAGEMENT COMMITTEE (“ARMC”)**  
**TERMS OF REFERENCE**

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

**1.0 DEFINITIONS AND INTERPRETATION**

1.1 In this Terms of Reference, where the context so admits the following expressions shall have the following meanings:

“ARMC”	Audit and Risk Management Committee
“Board”	The Board of Directors of Hibiscus Petroleum
“Bursa Securities”	Bursa Malaysia Securities Berhad
“Company Secretary”	Company Secretary(ies) of Hibiscus Petroleum
“Group”	Hibiscus Petroleum Berhad (Registration Number : 200701040290 (798322-P)) and its subsidiary companies
“Hibiscus Petroleum” or “Company”	Hibiscus Petroleum Berhad (Registration Number : 200701040290 (798322-P))
“Independent Director”	A director as defined in Chapter 1 of the Listing Requirements
“Listing Requirements”	The Main Market Listing Requirements of Bursa Malaysia Securities Berhad, including any amendments made from time to time
“Member”	A member of the ARMC, as appointed, pursuant to this Terms of Reference
“Senior Management”	Employees of the Company who are able to exercise significant influence in making strategic decisions in the Group
“Terms of Reference”	The terms of reference of the ARMC

1.2 In this Terms of Reference, unless the context otherwise requires:

1.2.1 words importing the masculine gender shall include the feminine, neuter genders and vice versa; and

1.2.2 words importing the singular shall include the plural and vice versa. The ARMC is governed by the Terms of Reference as stipulated below.

## **2.0 OBJECTIVES**

The ARMC shall assist the Board:

- (a) in complying with specified accounting standards and required disclosure as administered by Bursa Securities, relevant accounting standard bodies, and any other laws and regulations as amended from time to time in respect of the integrity of the Company's financial statements;
- (b) in presenting a balanced and understandable assessment of the Company's position and prospects, that requires review of the risks the Company faces, which includes business risks, financial risks, operational risks, technology risks, legal risks and reputation risks;
- (c) in establishing a formal and transparent arrangement for maintaining an appropriate relationship with the Company's internal and external auditors;
- (d) in ensuring a sound system of risk management and internal controls to safeguard shareholders' investment and the Company's assets, review the risk management framework, the effectiveness of internal control, recommend corrective measures to remedy and review principal risks; and
- (e) in ensuring that related party transactions are carried out on normal commercial terms and not prejudicial to the interests of the Company or its minority shareholders, and review related party transactions (including recurrent related party transactions).

### **3.0 POWERS**

In carrying out its duties and responsibilities, the ARMC shall have the following rights:

- (a) The explicit authority to investigate any matter within its Terms of Reference;
- (b) Access to the resources which are required to perform its duties;
- (c) Full, free and unrestricted access to any information, records, properties and personnel of the Company;
- (d) Direct communication channels with the external and internal auditors;
- (e) Ability to obtain independent professional or other advice at the Company's cost, and to invite external parties with relevant experience to attend the ARMC meetings, if required, and to brief the ARMC thereof;
- (f) Ability to convene meetings with external and internal auditors, or both, whenever deemed necessary, excluding the attendance of other Directors and employees of the Group;
- (g) Promptly report to Bursa Securities where a matter reported by the ARMC to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements; and
- (h) The attendance of any particular ARMC meeting by other Directors and employees of the Company shall be at the ARMC's invitation and discretion, and specific to that relevant meeting only.

### **4.0 COMPOSITION**

- (a) The ARMC must comprise at least three members, consisting of wholly non-executive Directors and a majority of whom are independent. The Chairman of the Board should not be a member of the ARMC;
- (b) At least one member must be a member of the Malaysian Institute of Accountants or a person who fulfils the requirements as stated in the Listing Requirements;
- (c) A former audit partner shall not be appointed as a Member of the ARMC until the expiry of a 3-year cooling-off period;
- (d) The Chairman must be independent;

- (e) No alternate Director shall be appointed as a member of the ARMC; and
- (f) In the event of any vacancy resulting in non-compliance of the minimum of three members (including Chairman), the Board shall upon the recommendation of the Nomination Committee, appoint such number of Directors to fill up such vacancy within three months of the event.

All members of the ARMC, including the Chairman, will hold office only so long as they serve as Directors of the Company. The Nominating Committee must review the term of office and performance of the ARMC, and each of its members annually, to determine whether the ARMC has carried out its duties in accordance with its Terms of Reference.

## **5.0 DUTIES AND RESPONSIBILITIES**

### **5.1 External Audit**

- (a) Nominate and recommend the external auditors to the Board for appointment, to consider the adequacy of experience, resources, audit fee and any issue regarding resignation or dismissal of the external auditors. In determining the appointment/re-appointment of the external auditors, the following factors shall be considered:-
  - 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; and
  - v) The number and experience of supervisory and professional staff assigned to the particular audit.

Review the suitability, performance and independence of the external auditors based on the approved External Auditor Independence Policy and recommend the external auditors for the Board's consideration and onward recommendation for the shareholders' approval for reappointment.

The ARMC is to also consider the performance of the external auditors and its independence as below:-

- (aa) The external auditors' ability to meet deadlines in providing services and responding to issues in a timely manner as contemplated in the external audit plan;

- (bb) The nature of the non-audit services provided by the external auditors and fees paid for such services relative to the audit fee; and
  - (cc) Whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit arising from the provision of non-audit services or tenure of the external auditors. In this regard, the assessment carried out should consider the information included in the Annual Transparency Report<sup>1</sup> of the external auditors.
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- (b) Review with the external auditors, the nature, scope and plan of the audit before the audit commences and report the same to the Board;
  - (c) Ensure co-ordination if more than one audit firm is involved in the audit;
  - (d) Review with the external auditors, their audit report and report the same to the Board;
  - (e) Review with the external auditors, their evaluation of the system of risk management and internal controls and report the same to the Board whenever applicable;
  - (f) Review the assistance given by the employees of the Company to the external auditors and report the same to the Board;
  - (g) Review any letter of resignation from the external auditors and report the same to the Board;
  - (h) Review whether there is reason, supported by grounds, to believe that the external auditors are not suitable for reappointment and report the same to the Board;
  - (i) Discuss problems and reservations, if any, arising from the interim and final audits, and any matter which the external auditors wish to discuss in the absence of the Management, where necessary;
  - (j) Discuss and review the external auditors' management letter and Management response (if any); and

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<sup>1</sup> An audit firm registered with the Audit Oversight Board ("AOB") with more than 50 public interest entity ("PIE") audit clients; and total market capitalisation of the audit firm's PIE audit clients above RM10 billion at the end of the calendar year for two consecutive years are required to issue an Annual Transparency Report. For any other AOB-registered audit firm that do not meet the above criteria, the firm is encouraged to issue an Annual Transparency Report.

- (k) Discuss the contracts for the provision of non-audit services which can be entered into and procedures that must be followed by the external auditors.

In the event that the non-audit fees paid to the Company's external auditors, or a firm or corporation affiliated to the external auditors' firm are significant (e.g. 50% of the total amount of audit fees paid to the Company's external auditors), the Company is required to state the details on the nature of non-audit services rendered in the ARMC Report.

## **5.2 Internal Audit**

- (a) Review and report the same to the Board on the adequacy of the scope, functions and resources of the internal audit function, and to ensure that it has the necessary authority to carry out its work;
- (b) Review and report the same to the Board on the internal audit programme, processes, the results of the internal audit programme, processes or investigation(s) undertaken, and whether or not appropriate action is taken on the recommendations of the internal audit function;
- (c) Ensure that appropriate action is taken on the recommendation of the internal auditors, where necessary;
- (d) Review the assistance and co-operation given by the employees of the Company to the internal auditor(s);
- (e) Review the performance of the internal auditor(s);
- (f) Approve any appointment or termination of the internal auditor(s);
- (g) Inform itself of the resignation of internal auditor(s) and request the resigning firm(s)/individual(s) to submit their/his/her reasons for resigning;
- (h) Discuss problems and reservations, if any, arising from the internal audits, and any matter which the internal auditor(s) wish to discuss in the absence of the Management, where necessary; and

- (i) Ensure the internal audit function is independent of the activities it audits and the head of internal audit reports directly to the ARMC. The head of internal audit should have the relevant qualifications and be responsible for providing assurance to the ARMC that the internal controls are operating effectively.

### 5.3 Risk Management

- (a) Review the adequacy of the Group's risk management framework and assess the resources and knowledge of the Management and employees involved in the risk management process;
- (b) Review the effectiveness of the internal control system deployed by the Management to address those risks;
- (c) Review and recommend corrective measures to be undertaken to remedy any failing and/or weakness;
- (d) Review and undertake monitoring of principal risks which may affect the Group directly or indirectly, and if deemed necessary, recommend additional course(s) of action to mitigate such risks;
- (e) Monitor and communicate the risk assessment results to the Board; and
- (f) Review the actual and potential impact of any failure or weakness of the internal controls in place, particularly those related to financial performance or conditions affecting the Company.

### 5.4 Others

- (a) Review the quarterly results and year-end financial statements and report the same to the Board for their approval, with emphasis given to:
  - i) any major change or implementation in accounting policy and practice;
  - ii) 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;
  - iii) the going concern assumption; and
  - iv) compliance with accounting standards and other legal requirements.



- (b) Review any related party transaction and conflict of interest situation that has arisen, persists or may arise within the Group, including any transaction, procedure or course of conduct that raises questions of management integrity and the framework established/to be established to monitor any related party transaction and conflict of interest situation that may arise within the Group and the measures taken to resolve, eliminate or mitigate such conflicts and report the same to the Board;
- (c) Discuss and review the major findings of any internal investigation and the Management's response;
- (d) Review the statement with regard to the state of risk management and internal controls of the Group for inclusion in the Annual Report and report the same to the Board;
- (e) 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;
- (f) Submit recommendations, where necessary, to the Board for approval;
- (g) Perform any other work that it is required or empowered to do by statutory legislation or guidelines as prepared by the relevant government authorities; and
- (h) Consider other topics as defined by the Board.

## **6.0 ARMC MEETINGS**

- (a) The minimum number of ARMC meetings to be held in a financial year is 4 meetings. Additional meetings may be called at any time, at the discretion of the Chairman of the ARMC;
- (b) The Managing Director and other appropriate officer(s) may be invited to attend the ARMC, where their presence are considered appropriate as determined by the ARMC Chairman;
- (c) The internal auditors have the right to appear and be heard at any meeting of the ARMC and are recommended to attend each ARMC meeting;

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- (d) Upon the request of the internal auditor(s) and/or external auditors, the ARMC Chairman shall also convene a meeting of the ARMC to consider any matter the auditor(s) believes should be brought to the attention of the Board or the shareholders;
- (e) Other Board members, employees of the Company and representatives of the external auditors may attend meetings upon the invitation of the ARMC;
- (f) The ARMC shall meet at least twice a year with the external and internal auditors without the presence of executive Board members and the Management;
- (g) The ARMC shall meet regularly, with due notice of issues to be discussed and shall record its conclusions accordingly;
- (h) The Company Secretary shall be in attendance at each ARMC meeting and record the proceedings of the meeting thereat;
- (i) The quorum for a meeting shall be two members of the ARMC, who are both Independent Directors; and
- (j) Subject to paragraph (a) above, in appropriate circumstances, the ARMC may deal with matters by way of circular reports and resolutions in lieu of convening a formal meeting. A resolution in writing signed by all members in lieu of convening a formal meeting shall be as valid and effectual as it had been passed at a meeting of the ARMC duly convened and held. Any such resolution may consist of several documents in like form, each signed by one or more members.

**7.0 CHAIRMAN OF THE ARMC**

The duties and responsibilities of the Chairman of the ARMC are to :-

- (a) Steer the ARMC to achieve the goals it sets;
- (b) Consult the Secretary of the Company for guidance on matters related to the ARMC's responsibilities under the applicable rules and regulations, to which they are subject to;
- (c) Organise and present the agenda for ARMC meetings based on input from members of the ARMC for discussion on matters raised;
- (d) Provide leadership to the ARMC and ensure proper flow of information to the ARMC by reviewing the adequacy and timing of documentation;

- (e) Ensure that all members are encouraged to play their role in its activities;
- (f) Ensure that consensus is reached on every ARMC resolution and where considered necessary, call for a vote;
- (g) Manage the processes and working of the ARMC and ensure that the ARMC discharges its responsibilities without interference from the Management; and
- (h) Engage on a regular basis with Senior Management, the internal and external auditors in order to be kept informed of matters affecting the Company.

#### **8.0 SECRETARY OF THE ARMC**

The Secretary of the Company shall be the Secretary of the ARMC.

#### **9.0 ARMC MEMBERS**

Each ARMC member shall be expected to:

- (a) Provide individual external independent opinion to the fact-finding, analysis and decision making process of the ARMC;
- (b) Consider viewpoints from the other ARMC members in making decisions and recommendation for the best interest of the Board collectively;
- (c) Keep abreast of the latest corporate governance guidelines in relation to the ARMC and the Board as a whole; and
- (d) Continuously seek out best practices in terms of processes utilised by the ARMC, following which these should be discussed with the rest of the ARMC members for possible adoption.

## **10.0 DISCLOSURE**

10.1 The ARMC is required to prepare an ARMC Report at the end of each financial year to be included and published in the Annual Report of the Company. The ARMC Report shall include the following:

- (a) Composition of the ARMC, including the name, designation (indicating the Chairman) and directorship of the members (indicating whether the Directors are independent or otherwise);
- (b) Number of ARMC meetings held during the financial year and details of attendance of each ARMC member;
- (c) Summary of the work carried out by the ARMC in the discharge of its functions and duties for that financial year of the Company and how it has met its responsibilities; and
- (d) Summary of the work undertaken by the internal audit function.
- (e) Summary of any conflict of interest or potential conflict of interest situation reviewed by the ARMC pursuant to item 5.4(b) above, and the measures taken to resolve, eliminate, or mitigate such conflicts.

10.2 The ARMC shall assist the Board in making the following additional statements in the Company's Annual Report:

- (a) Statement explaining the Board's responsibility for preparing the annual audited financial statements of the Group; and
- (b) Statement about the state of risk management and internal controls of the Group.

## **11.0 WRITTEN TERMS OF REFERENCE**

The ARMC must have a written Terms of Reference which deal with the scope of its authority and duties, and such Terms of Reference must be made available on the Company's website.

**12.0 REVISION OF THE TERMS OF REFERENCE**

- (a) Any revision or amendment to this Terms of Reference, as proposed by the ARMC or any third party, shall first be presented to the Board for its approval; and
- (b) 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.