



**SIME DARBY BERHAD**

**GOVERNANCE & AUDIT COMMITTEE  
TERMS OF REFERENCE**

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## 1. PURPOSE

- 1.1 The Governance & Audit Committee (“GAC”) is established as a committee of the Sime Darby Berhad (“SDB”) Board of Directors (“the Board”) with the following primary objectives:
- 1.1.1 To assist the Board in fulfilling its statutory and fiduciary responsibilities of monitoring the SDB group of companies’ (“Group”) management of financial risk processes, and accounting and financial reporting practices.
- 1.1.2 To review the Group’s business process, the quality of the Group accounting function, financial reporting and the system of internal controls.
- 1.1.3 To enhance the independence of both the external and internal audit functions by providing direction to and oversight of these functions on behalf of the Board.

## 2. COMPOSITION AND APPOINTMENT

- 2.1 The GAC members shall be appointed by the Board from amongst their number and shall consist of not less than three (3) members, all of whom shall be Non-Executive Directors, and a majority of whom shall be Independent Directors.
- 2.2 All members of the GAC should be financially literate and have the ability:
- to read and understand financial statements, including a company’s statement of financial position, statement of comprehensive income, and cash flow statement;
  - to analyse financial statements and ask pertinent questions about the company’s operations against internal controls and risk factors; and
  - to understand and interpret the application of approved accounting standards and other related requirements.
- 2.3 At least one member of the GAC shall be a member of the Malaysian Institute of Accountants or shall fulfil such other requirements as prescribed in the Main Market Listing Requirements (“Listing Requirements”) of Bursa Malaysia Securities Berhad (“Bursa”).
- 2.4 No alternate Director shall be appointed as a member of the GAC.
- 2.5 No former key audit partner shall be appointed as a member of the GAC before observing a cooling-off period of at least three (3) years.

- 2.6 The Chairman of the GAC shall be an Independent Non-Executive Director appointed by the Board, who is not the Chairman of the Board, and acts as the key contact between the committee members and Board members as well as Senior Management, Group Corporate Assurance (“GCA”) and Group Risk & Compliance (“GRC”), and the auditors. The responsibilities of the GAC Chairman, among others, are as follows:
- Planning and conducting meetings;
  - Overseeing the reporting to the Board;
  - Encouraging open discussion during meetings; and
  - Developing and maintaining active on-going dialogue with Management, GCA, GRC and external auditors.
- 2.7 The GAC members may relinquish their membership in the GAC with prior written notice to the Group Secretary. If a member of the GAC resigns or for any reason ceases to be a member of the GAC resulting in non-compliance with the Listing Requirements, then the Board shall, as soon as possible, but not later than three (3) months from that event, appoint such number of new members as may be required.

### 3. AUTHORITY

- 3.1 The GAC is authorised by the Board and at the expense of the Group to perform the following:
- 3.1.1 Secure the resources in order to perform its duties as set out in its terms of reference.
  - 3.1.2 Investigate any activity within its terms of reference and shall have direct communication channels with Senior Management and the external auditors.
  - 3.1.3 Have full and unrestricted access to information pertaining to the Company and the Group, their records, properties and personnel.
  - 3.1.4 Obtain external legal or other independent professional advice as necessary.
  - 3.1.5 Convene meetings with the external auditor, GCA and GRC without the attendance of any executive, and if appropriate, the Group Secretary, whenever deemed necessary.
  - 3.1.6 Have immediate access to reports on fraud or irregularities from GCA and GRC.

3.1.7 Authorise an investigation where there is possible fraud, illegal acts or suspected violation of the Code of Business Conduct ("COBC") involving Senior Management or members of the Board.

3.2 The GAC shall report to the Board on matters considered and its recommendations thereon, pertaining to the Group.

#### **4. FUNCTIONS AND DUTIES**

The main functions and duties of the GAC shall include, but are not limited to the following:

##### **4.1 Financial Reporting and Performance Oversight**

4.1.1 Review the quarterly and annual financial statements of SDB and the Group with Management and the external auditors focusing on the matters set out below, prior to approval by the Board:

- any change in accounting policies and practices, and its implementation;
- significant adjustments arising from the audit;
- significant matters highlighted including financial reporting issues, significant judgements made by Management, significant and unusual events or transactions, and how these matters are addressed;
- the going concern assumption; and
- compliance with accounting standards and regulatory requirements.

4.1.2 Review with the external auditors the audited financial statements for the purpose of approval prior to presentation to the Board for adoption, for the following:

- whether the auditor's report contained any qualifications which must be properly discussed and acted upon;
- whether there is any significant changes and adjustments in the presentation of financial statements;
- whether it is in compliance with laws and accounting standards;
- whether there is any material fluctuations in balances;
- whether there is any significant variations in audit scope and approach;
- whether there is any significant commitments or contingent liabilities; and
- whether the financial statements taken as a whole provide a true and fair view of the Company's financial position and performance.

- 4.1.3 Discuss problems and issues arising from the interim and final external audits, and any matters the external auditors may wish to discuss in the absence of Management, where necessary.
- 4.1.4 Provide the Board with assurance on the quality and reliability of financial information used by the Board and of the financial information issued publicly by SDB and the Group.
- 4.1.5 Regularly review individual Division financial results and performance, and shall discuss such results with the Management, as necessary.

## **4.2 Oversight of GCA and Controls Environment**

- 4.2.1 In relation to internal controls:
- Oversee the internal controls framework to ensure operational effectiveness and adequate protection of SDB's and the Group's assets from misappropriation.
  - Establish and approve the GCA Charter, setting forth its purpose, responsibilities and the necessary authority to carry out its work.
  - Review, challenge and approve the GCA audit plan and budget, risk assessment and audit methodology, and ensure robustness in the audit planning process.
  - Review the adequacy of the internal audit scope, audit programmes, functions, competency, experience and resources of GCA, and ensure it is able to undertake its activities independently and objectively, and that it has the necessary authority to carry out its work.
  - Review the internal audit reports prepared by GCA, discuss major findings and Management's response, and ensure appropriate action is taken on the recommendations of GCA.
- 4.2.2 Recommend to the Board the appointment and remuneration, transfer or dismissal (including termination and removal) of the function head of GCA. Appointments and regular rotations of the Direct Reports to the function head of GCA notified to the GAC. The GAC shall be informed of any transfers out of GCA as well as dismissals of the Direct Reports of the function head of GCA. The GAC shall also be informed of any resignation of the function head of GCA, and its Direct Reports, and provide them an opportunity to submit his/her reason for resignation.

- 4.2.3 Assess the performance of the function head of GCA.
- 4.2.4 Review the results of validation performed by GCA on Controls Self-Assessment (“CSA”) sign-offs by Management.
- 4.2.5 Provide the Board with the following information for disclosure in the Annual Report:
- whether internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence;
  - the number of resources in the internal audit department;
  - the name and qualification of the person responsible for internal audit; and
  - whether the internal audit function is carried out in accordance with a recognised framework.

#### **4.3 Governance Oversight**

- 4.3.1 Review the adequacy and effectiveness of the Group Policies & Authorities (“GPA”) on an annual basis, and its supporting policies and procedures (including the Group Procurement Policies & Authorities “GPPA”) if required.
- 4.3.2 Review reports from GCA on violations of the COBC and whistleblowing issues, as well as breaches involving pivotal positions.

#### **4.4 Dealings with External Auditors**

- 4.4.1 Recommend to the Board the appointment of the external auditor and the audit fee, and any resignation or dismissal of the external auditor.
- 4.4.2 Assess and monitor the performance, suitability, objectivity and independence of the external auditor annually. The assessment is to be based on established policies and procedures that consider among others:
- the competence, audit quality and resource capacity of the external auditor in relation to the audit;
  - the nature and extent of the non-audit services rendered and appropriateness of the level of fees; and
  - obtaining 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.

4.4.3 Discuss the following with the external auditor prior to commencement of the audit:

- the nature and scope of audit;
- the audit plan;
- co-ordination of audit where more than one audit firm is involved;
- evaluation of the system of internal controls;
- effectiveness of the management information system including any suggestions for improvement and Management's response;
- the audit reports; and
- any assistance given by SDB's and the Group's employees to the auditors.

#### **4.5 Related Party Transactions**

4.5.1 Ensure that Management establishes a comprehensive framework for the purposes of identifying, evaluating, approving, reporting and monitoring conflict of interest situations and related party transactions.

4.5.2 Review and report to the Board any related party transactions entered into by SDB and the Group to ensure that:

- all on-going transactions are in the best interest of the Group;
- transactions are in the best interest of the Group;
- transactions are fair, reasonable and undertaken on the Group's normal commercial terms;
- internal control procedures with regard to such transactions are sufficient and review any conflict of interest situations or related party transactions to ensure that interested parties do not abuse their powers to gain unfair advantage; and
- transaction is not detrimental to the interest of minority shareholders.

#### **4.6 Share Issuance Scheme**

4.6.1 Ensure compliance with the criteria for the allocation of shares and verify the numbers of shares offered to the eligible employees and/or vested in a grantee under the Scheme and the same is disclosed to the eligible employees and/or grantees at the end of each financial year as required by the Listing Requirements.

**4.7 Other Matters**

- 4.7.1 Prepare an audit committee report at the end of the financial year pursuant to the Listing Requirements.
- 4.7.2 Ensure that any matter which results in a breach of the Listing Requirements is reported to Bursa if it has not been satisfactorily resolved.
- 4.7.3 Undertake any such other functions as may be determined by the Board from time to time.

**5. MEETINGS****5.1 Frequency**

- 5.1.1 The GAC shall meet at least quarterly in a financial year. The Chairman of the GAC, in consultation with the Group Secretary, should determine the frequency of committee meetings. The schedule of meetings should be discussed with all the participants concerned, including the Group Chief Financial Officer ("GCFO"), function heads of GCA and GRC and external auditors to ensure that key tasks, such as approval of financial statements for timely issuance, can be accommodated. Additional meetings shall be scheduled as considered necessary by the Chairman of the GAC or should circumstances require.
- 5.1.2 The function head of GCA shall attend meetings of the GAC as permanent invitee unless otherwise decided by the Chairman. The Group Chief Executive Officer ("GCEO"), GCFO, function head of GRC, and a representative of the external auditors shall normally be invited to attend the meetings.
- 5.1.3 Other members of the Board may attend the meetings upon the invitation of the GAC. Divisional Managing Directors and Group Chief Officers may be invited to the meetings where necessary.
- 5.1.4 At least twice a year, the GAC shall meet with the external auditors without the presence of any executive members.

- 5.1.5 The GAC shall meet prior to the release of the Group's quarterly results and annual reports to discuss the proposed disclosures in the quarterly announcements and annual reports.

## **5.2 Notice and Agenda**

- 5.2.1 The Group Secretary shall issue and circulate the notice of GAC meetings confirming the venue, time and date at least five (5) working days before each meeting to the GAC committee members and all those who are required to attend the meeting.
- 5.2.2 The agenda for each meeting including relevant documents and information requested by the GAC shall be circulated at least five (5) working days before each meeting to the GAC members and all those who are required to attend the meeting.
- 5.2.3 The GAC meeting agendas shall be the responsibility of the Chairman with input from the members. Where necessary, the agenda shall include input from the GCEO, GCFO and the GCA, GRC and/or external auditors.
- 5.2.4 The Chairman may also invite other members of Management and other persons to participate in this process, if necessary.

## **5.3 Quorum**

- 5.3.1 The quorum for a meeting of the GAC shall be three (3) members, with the majority of members present being Independent Directors. In the absence of the Chairman, the members present shall elect a Chairman from amongst them to chair the meeting.

## **5.4 Meeting Mode**

- 5.4.1 A meeting shall normally be conducted face-to-face to enable effective discussion; however, meetings may also be conducted via telephone conferencing, video conferencing or other appropriate means as determined by the GAC.

5.4.2 The GAC may from time to time and if deemed appropriate, consider and approve and/or recommend relevant matters via a Circular Resolution in writing, in lieu of formally convening a meeting. The Circular Resolution shall be as valid and effectual as if it has been passed by a meeting of the GAC duly convened. Approval of the GAC obtained by a GAC Circular Resolution must be signed or approved by all GAC members subject to 5.5.2.

## **5.5 Voting**

5.5.1 All resolutions of the GAC shall be adopted by a simple majority vote, each member having one vote. In case of equality of votes, the Chairman of the GAC shall have a second or casting vote.

5.5.2 A GAC member is required to abstain from deliberations and voting in respect of any matter which may give rise to an actual or perceived conflict of interest situation.

## **5.6 Meeting Minutes**

5.6.1 The minutes of the meeting shall be action oriented, and record the deliberations and decisions of the GAC. Minutes shall include compiled Board instructions as Matters Arising for discussion at each GAC meeting to ensure proper follow through.

5.6.2 Minutes shall be distributed to GAC members within three (3) weeks from the meeting. The minutes shall be approved by the Chairman of the meeting at which the proceedings are held or by the Chairman of the next succeeding meeting.

5.6.3 Copies of minutes of each meeting shall be distributed to all members of the Board, GAC, GCEO, GCFO and function heads of the GCA and GRC to ensure proper key actions are acted upon.

5.6.4 The GAC, through its Chairman, shall update the Board on the activities undertaken by the GAC at each Board meeting.

5.6.5 The function heads of GCA and GRC and relevant members of Senior Management shall be provided with the minutes and Matters Arising for follow up on key actions required.

**5.7 Secretary**

- 5.7.1 The Secretary to the GAC shall be the Group Secretary or a person recommended by the Group Secretary and approved by the Board.
- 5.7.2 The Secretary shall organise and provide assistance at GAC meetings and have the following key responsibilities:
- ensure meetings are arranged and held accordingly;
  - assist the Chairman in planning the GAC's activities;
  - draw up meeting agendas in consultation with the GAC Chairman and maintain the minutes and draft its scheduled activities for the financial year;
  - ensure structured communication channels between the Board and the GAC;
  - ensure proceedings of meetings are recorded and the minutes circulated in a timely manner, and reviewed by the GAC before disseminating them to the Board; and
  - ensure GAC recommendations presented to the Board are supported by papers that explain the rationale for the GAC's recommendations.

**6. CONTINUOUS PROFESSIONAL DEVELOPMENT**

- 6.1 The GAC members shall undertake continuous professional development training to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.

**7. ANNUAL PERFORMANCE ASSESSMENT**

- 7.1 The GAC shall perform a self-assessment annually to assess its effectiveness in carrying out the duties as set out in this Terms of Reference and report the results to the Board.
- 7.2 The Nomination & Remuneration Committee (NRC) shall review the terms of office and performance of the GAC and each of its members annually to determine whether the GAC and each of its members have carried out their duties in accordance with this Terms of Reference. The NRC shall seek the views of the Chairman of the GAC in its assessment of the performance of members of the GAC, other than of the Chairman himself/herself.

7.3 The Board shall also review the composition, performance and effectiveness of the GAC and each of its members annually to ensure that the Committee has the right composition, and sufficient, recent and relevant skills and expertise to effectively fulfil their roles.

7.4 All such assessments shall be properly documented.

## **8. REVIEW OF THE TERMS OF REFERENCE**

8.1 The GAC shall recommend any changes to its terms of reference in such manner as the GAC deems appropriate to the Board for approval. The terms of reference shall be assessed, reviewed and updated where necessary i.e. when there are changes to the Malaysian Code on Corporate Governance, Listing Requirements or any other regulatory requirements. It should also be reviewed and updated when there are changes to the direction or strategies of the Group that may affect the GAC's role.