POLICY ON THE SELECTION OF EXTERNAL AUDITORS

1. INTRODUCTION

1.1 PURPOSE

The purpose of this Policy is to determine the parameters to be considered by the Audit and Risk Management Committee **("Committee")** in accessing the suitability and independence of the external auditors.

This policy should be read in conjunction with the Terms of Reference of the Committee, which outlines the duties and responsibilities of the Committee relating to the appointment of the external auditor.

1.2 SCOPE

This Policy applies to Scomi Group Bhd **("the Company")** and its subsidiary companies (collectively, **"the Group")**.

2. SELECTION AND APPOINTMENT

Pursuant to Section 172(2) of the Malaysian Companies Act 1965, the Company shall at each annual general meeting appoint or re-appoint the external auditors of the Company, and the external auditors so appointed shall, hold office until the conclusion of the next annual general meeting of the Company.

The Board is responsible for appointing the external auditor, subject to shareholder approval at the Company's Annual General Meeting.

The Committee has been empowered to recommend to the Board the appointment, remuneration and removal of the external auditor.

In the event that a vacancy or change in the external auditor for the Group occurs, the Committee will conduct a formal selection process by tender.

Should the Committee determine a need for a change of external auditors, the Committee will follow the following procedures for selection and appointment of new external auditors:-

(i) the Committee to identify the audit firms who meet the criteria for appointment and request for their proposals of engagement for consideration;

(ii) the Committee will assess the proposals received and shortlist the suitable audit firms;

(iii) the Committee will meet and/or interview the shortlisted candidates;

(iv) the Committee may delegate or seek the assistance of the Chief Financial Officer **("CFO")** to perform items (i) to (iii) above;

(v) the Committee shall evaluate the independence of the shortlisted candidates in accordance with Section 3 below;

(vi) the Committee will recommend the appropriate audit firm to the Board for appointment as external auditors; and

(vii) the Board will consider and if agreed, endorse the recommendation by the Committee and seek the shareholders' approval for the appointment of the new external auditors and/or resignation/removal of the existing external auditors at the general meeting.

Tenders will be evaluated in accordance with the following criteria:

(i) quality and thoroughness of the audit approach and methodology;
(ii) independence of the external audit firm and specifically the audit engagement partner;
(iii) skills and knowledge of the proposed external audit team;
(iv) global resources;
(v) understanding of the industry;
(vi) partner rotation and succession planning; and
(vii) value for money.

In making any recommendation, the Committee will consider involving certain senior executives to comment on tender responses received.

Save where the same is not practical, all subsidiaries, associated companies and jointly controlled companies shall appoint the external auditor selected by the Company or its member firms.

3. EXTERNAL AUTIDOR INDEPENDENCE

The external auditor independence requires freedom from bias, personal interest, prior commitment to an interest, or susceptibility to undue influence or pressure, any of which could lead to a belief that the audit opinion was determined other than by reference to the facts of the audit alone.

The Committee will review the independence of the external auditor annually.

In evaluating independence, the Committee shall consider whether the external auditor is independent both in fact and in appearance.

The external auditor is precluded from providing any services that might threaten their independence or conflict with their assurance and compliance role. Specifically, any firm providing audit services to the Group will need to satisfy the Committee that:

(i) no services will be provided that will result in a conflict of interest;
(ii) neither the firm, a superannuation fund of the firm nor any partner of the firm holds any shares or options, either directly or indirectly, in the Group or its controlled entities;
(iii) no member of the current service team holds any shares or options, either directly or indirectly, in the Group or its controlled entities;
(iv) no funds have been received by the firm by way of a loan or other form of capital from the Group or its controlled entities;
(v) any services provided by the firm additional to that of the audit function involving non-audit services traditionally performed by accounting firms, would not have a material bearing on the audit and would not involve the firm auditing their own work;
(vi) the firm has an audit personnel rotation policy, including lead and signing partners, requiring rotation at least every five years;
(vii) no partner or member of staff or spouse or close relative of an audit partner or member of the audit staff holds a position as a director or executive of the Group or its controlled entities;
(viii) there will be no situations where the auditor assumes the role of management or where the auditor is placed in the role of advocate for The Group.

Those audit and audit related services that are prohibited are set out in Section 5 below.

4. ROTATION OF KEY AUDIT PARTNER(S)

The key audit partner(s) (including the Lead Audit Engagement Partner, the Independent Review Partner and any other Partners who make key decisions or judgements in relation to the audit of the Group, Parent Entity and material Subsidiaries) responsible for the external audit of the Group is subject to rotation at least every five (5) financial years. Those partners will be subject to a two year cooling-off period following rotation.

In cases where the external auditor does not have an audit partner rotation policy, this provision is to be included in the engagement letter of the external auditor.

5. PROVISION OF NON-AUDIT SERVICES

Subject to the approval as provided in the Group's Delegated Authority Limits, the external auditor can be engaged to perform certain audit or non-audit related services that are not, and are not perceived to be, in conflict with the role and/or diminish the independence of the external auditor. Such engagement shall be reported to the Committee.

The external auditor should be appointed for other service engagements only when they have specific or unique knowledge or expertise that cannot be practically sourced from another provider, and do not have a conflict of interest due to a relationship with another client.

The prohibition of non-audit services is based on three (3) basic principles as follows:-

(i) external auditors cannot function in the role of Management;

(ii) external auditors cannot audit their own work; and

(iii) external auditors cannot serve in an advocacy role of the Group.

The external auditor **must not** be engaged to perform any of the prohibited audit and non-audit related services listed below:

Prohibited Services

(i) bookkeeping or other services related to the accounting records or financial statements of the Group;

(ii) financial information systems design and implementation;

(iii) appraisal or valuation services, fairness opinions, or contribution-in-kind reports;

(iv) actuarial services;

(v) internal audit outsourcing services;

(vi) management functions or human resource services;

(vii) broker or dealer, investment adviser, or investment banking services;

(viii) legal services and expert services unrelated to the audit; and

(ix) any other service that the Board determines, by regulation, is impermissible.

If, in the view of the Committee, the level of fees being paid to the external auditor for audit or non-audit related service, either severally or in the aggregate, are of a magnitude that could impair, or be perceived to impair, auditor independence, the Committee may impose a restriction on the services being awarded to the external auditor.

The external auditors shall observe and comply with the By-Laws in relation to the provision of non-audit services of the respective professional body which governs its practice.

6. EXTERNAL AUDITOR PERFORMANCE REVIEW

The Committee shall review the performance of the external auditor on an annual basis.

In reviewing the performance of the external auditor, the Committee shall consider:

(i) the quality and rigour of the audit;
(ii) the quality of service provided;
(iii) the audit firm's internal quality control procedures;
(iv) relationship with the internal auditor and the company; and
(v) the independence of the auditor.

Where the performance of the external auditor is assessed as being unsatisfactory, the Committee shall determine and recommend to the Board the course of action, which may include:

(i) Discussion with the external audit firm to resolve performance issues;
(ii) Replacement of members within the external audit team; or
(iii) Commencement of a competitive tender process in order to select a new service provider.

7. EXTERNAL AUDITOR REPORTING

Each year as part of the external audit assignment the external auditors, after discussions with management will issue an external audit plan for review and discussion with the Committee. The audit plan should outline the control and substantive based procedures to be completed.

The plan should also include additional audit procedures, based on the external auditor's analysis and understanding of developments during recent months, which require additional emphasis during the audit.

The external audit plan will apply materiality to assist in determining when the external auditors would expect to involve the Committee, should it become necessary, in order to resolve an audit or accounting issue. It also affects the extent to which the external auditors perform detailed procedures on smaller account balances in the financial records.

All audit differences in excess of a set limit each year are to be brought to the attention of management for further consideration and action as appropriate.

On completion of the annual audit, the external auditors shall provide the Committee with an Audit Committee Report, Management Letter (which shall cover all material subsidiaries within the Group that are audited by the external auditors and its member firms) and an Audit Opinion on the financial statements.

In respect of any associated company, interest, joint venture company, operation or arrangement to which the Group is a party, the person(s) appointed by the Group as representatives of the Board or management committees shall provide a copy of the respective Management Letters to the Committee.

The Management Report will confirm the audit findings and highlight any of these audit differences that have not been addressed by management and the potential impact on the accounts. The audit opinion will indicate the external auditor's conclusion as to the integrity of the financial statements.

8. COMPANY CONTACTS

If you have any questions in relation to this Policy, you should contact the CFO.

9. REVIEW OF THIS POLICY

This Policy is subject to an annual review by the Committee and the Board.

10. ACCESS TO THIS POLICY

This Policy will be available for viewing by any employee of the Group on the Group Intranet and by any other person on Group’s website.