



LIM SEONG HAI CAPITAL  
BERHAD  
(1392985-A)

# External Auditor Policy

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## POLICY

POLICY AND PROCEDURE			
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## **1.0 Introduction**

The Board of Directors (the “Board”) and its Audit and Risk Management Committee (the “ARMC”) of Lim Seong Hai Capital Berhad (“LSH” or the “Company”) are committed to ensuring suitability and independence of External Auditors in substance as well as in form.

The objective of this External Auditor Policy is to outline the guidelines and procedures for the ARMC to assess and monitor the external auditors.

## **2.0 Selection and appointment**

The Board has delegated to the ARMC the responsibility for the appointment, remuneration and removal of external auditor.

Pursuant to Section 271 (1) of the Company Act 2016, 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.

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

- a) the ARMC to identify the audit firms who meet the criteria for appointment and to request for their proposals of engagement for consideration;
- b) the ARMC will assess the proposals received and shortlist the suitable audit firms;
- c) the ARMC will meet and/or interview the shortlisted candidates;
- d) the ARMC may delegate or seek the assistance of the Chief Financial Officer (“CFO”) to perform items (a) to (c) above;
- e) the ARMC will recommend the appropriate audit firm for the Board’s approval; and
- f) the Board will if deemed appropriate, endorse the recommendation and seek shareholders’ approval for the appointment of the new external auditors and/or resignation/removal of the existing external auditors at the general meeting.

## **3.0 Independence of External Auditor**

The independence of external auditor is essential to the provision of an objective opinion on the truth and fairness of the financial statements of the Company.

Pursuant to the Malaysian Code on Corporate Governance (“MCCG”), the ARMC is also mandated to ensure continuing objectivity, suitability and independence of the external auditor.

The external auditor is precluded from providing any services that may impair their independence or conflict with their role as external auditor. The ARMC shall obtain a written assurance from the external auditor 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.

#### **4.0 Non-audit Service**

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.

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

- a) external auditor cannot function in the role of Management;
- b) external auditor cannot audit their own work; and
- c) external auditor cannot serve in an advocacy role of the Company and its subsidiaries (“the Group”)

The external auditors shall observe and comply with the By-Laws of the Malaysian Institute of Accountants in relation to the provision of non-audit services, which include the following:-

- a) bookkeeping or other services related to the preparation/maintenance of the accounting records or financial statements of the Company and its subsidiaries (“the Group”);
- b) financial information design and implementation unless the responsibility for the overall systems of internal controls, operations and design of the system rests with the Group;
- c) appraisal or valuation services (excluding due diligence services);
- d) actuarial services (excluding due diligence services);
- e) outsourcing of internal audit function;
- f) management functions or human resources;
- g) litigation support; and
- h) corporate finance services

All engagements of the external auditor to provide non-audit services are subject to the approval/endorsement of the Committee.

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



## 5.0 Rotation of engagement partner

The Company recognises that there exists a threat to the auditor's independence where the same audit partner conducts consecutive audits of the Company.

To mitigate this risk, it is important for regular audit partner rotation to occur. The By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("MIA By-Laws") sets out the maximum number of years Key Audit Partners\* can serve in the same role, as well as the number of "cooling-off" years as follows: -

<u>Role</u>	<u>Cumulative Stay-on Period</u>	<u>Cooling-off Period</u>
Engagement Partner	7 years	5 years
Engagement Quality Control Reviewer	7 years	3 years
Other Key Audit Partners	7 years	2 years

*Notes:*

- 1 The cooling-off period is the minimum number of consecutive years that a KAP must cool-off from the engagement.*
- 2 The cumulative stay-on period is the maximum number of cumulative (but not necessary consecutive) years that a partner can perform a KAP role on an engagement.*
- 3 The KAP shall not act in any of the above roles, or a combination of such roles, for a period of more than seven (7) cumulative years.*

## 6.0 Appointment of a former partner as ARMC member

In the event of a former partner of the external audit firm\* of the Company being appointed as a member of the ARMC, he/she shall observe a cooling-off period of at least three (3) years before such appointment.

*\* This applies to all former partners of the external audit firm and/or the affiliate firm (including those providing advisory services, tax consulting and so forth).*

## 7.0 Reporting

The external auditor must provide an annual declaration addressed to the ARMC confirming: -

- The nature of any non-audit services provided to the Company; and
- That the auditor has maintained its independence in accordance with relevant legislation and professional accounting standards.

## **8.0 Annual assessment**

The ARMC's recommendation on the appointment of External Auditor to the BODs shall be anchored on a defined set of criteria as set out below.

The following procedures shall be followed during the annual assessment and re-appointment process:

- a) The Incumbent External Auditor shall be assessed for their performance (i.e. auditors' independence, audit resources allocation, audit methodology, audit quality, communication effectiveness with Senior Management and the Committee, professional scepticism, and information presented in the Annual Transparency Report of the External Auditor) after completion of every financial year's statutory audit.
- b) The External Auditor Evaluation Form shall be duly completed and presented to the Audit Committee for review by each financial year and subsequently to the Board for endorsement to table at the Company's next AGM.
- c) The Board is responsible to review and approve the remuneration of the External Auditor for the new financial year.

Annually, the ARMC 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.

If the External Auditor is deemed to be not suitable, the ARMC should source for alternative external audit firms via a formal tender process and make recommendations to the BODs. In conducting this assessment, the ARMC shall also gather feedback from the CFO.

The ARMC may also request the CFO to perform the annual assessment of the external auditors.

The evaluation form for assessing the External Auditor is outlined in Appendix 1 of this Policy.

## **9.0 Review the policy**

The ARMC will review the Policy periodically to ensure that it continues to remain relevant and appropriate.



## APPENDIX 1 – EXTERNAL AUDITOR EVALUATION FORM

The following External Auditor Evaluation Form sets out the key questions used to assist the process for the evaluation of the external auditor, prior to its appointment and/or re-appointment. The external auditor, by definition, includes its network member firms and companies based on the By Laws (on Professional Ethics, Conduct and Practice) by the Malaysian Institute of Accountants.

The Evaluation Form provides ratings from one (1) to four (4), or 'yes' and 'no', with the indicators illustrated below, to be responded in relation to the nature of the questions:

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Yes, always	Yes, most of the time	Yes, but seldom	No
or			
4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Above average	Average	Below average	Poor
or			
Yes <input type="checkbox"/>			No <input type="checkbox"/>
Yes			No

Where a particular criterion is deemed not applicable, it shall be indicated as 'Not Applicable' in the comment box.

**Name of External Auditor:**

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### Section A: Calibre of external audit firm

1. Are there recent or current litigation cases against the firm?

Yes <input type="checkbox"/>			No <input type="checkbox"/>
<b>Comment:</b>			

2. Does the external audit firm have the size, resources and geographical coverage required to audit the company?

Yes <input type="checkbox"/>			No <input type="checkbox"/>
<b>Comment:</b>			

## Section B: Quality processes/performance

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 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
<b>Comment:</b>			

4. How have key risks, including fraud risk and financial misstatement risk, been discussed and factored into the audit plan?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
<b>Comment:</b>			

5. How is the external audit firm's process for internal review of accounting judgments, including an understanding of the key issues?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
<b>Comment:</b>			

6. How are relevant specialists/experts being employed by the external audit firm and how are these linked to the audit process?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
<b>Comment:</b>			

7. How well multiple-location audits and/or overseas audits are controlled and are their audit effectiveness regarded as consistent internationally?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
<b>Comment:</b>			

8. Are the reporting processes for subsidiary audit teams<sup>1</sup> effective?

Yes <input type="checkbox"/>			No <input type="checkbox"/>
<b>Comment:</b>			

<sup>1</sup> Group engagement team (i.e. audit team from the parent company's external auditor or its network member firms) or component external auditor (i.e. audit team from a different external audit firm) that performs the external audit on the subsidiaries of the parent company.

9. How is the external audit firm's approach to seeking and assessing management representations?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
<b>Comment:</b>			





10. In cases where there are any differences in views between management and the external auditor, does the external auditor communicate its views clearly and accurately from an accounting perspective?

Yes <input type="checkbox"/>			No <input type="checkbox"/>
Comment:			

11. Does the ARMC agree with the bases and extent of reliance the external auditor places on management and internal audit testing, if any? (Comment as 'Not Applicable' if none).

Yes <input type="checkbox"/>			No <input type="checkbox"/>
Comment:			

12. Comment on the external auditor's working relationship with internal audit.

Comment:
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13. Did the external auditor meet the performance targets, i.e. audit scope, audit plan, timing, etc.?

Yes <input type="checkbox"/>			No <input type="checkbox"/>
Comment:			

14. Does the external audit function report instances of fraud or irregularities identified during the course of the audit to the Committee, if any?

Yes <input type="checkbox"/>			No <input type="checkbox"/>
Comment:			

### Section C: Audit team

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.

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

16. Is the lead engagement partner able to provide a clear and understandable explanation on auditing and accounting issues faced by the company?

Yes <input type="checkbox"/>			No <input type="checkbox"/>
Comment:			



17. How is the audit engagement partner's/other senior personnel's involvement in the audit process and is this sufficient?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
<b>Comment:</b>			

#### Section D: Independence and objectivity

18. Does the external audit firm communicate to the company on any matters which might reasonably be perceived as affecting the independence of the firm and/or of individuals assigned to the external audit team?

Yes <input type="checkbox"/>			No <input type="checkbox"/>
<b>Comment:</b>			

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?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
<b>Comment:</b>			

20. Is the Audit Committee of the opinion that the external audit function is independent and objective?

Yes <input type="checkbox"/>			No <input type="checkbox"/>
<b>Comment:</b>			

21. Prior to approval by the ARMC on non-audit services to be rendered by the external audit firm which require separate concurrence, does the lead engagement partner explain and discuss safeguards in place to protect against impairment to independence and objectivity of the external audit firm?

Yes <input type="checkbox"/>			No <input type="checkbox"/>
<b>Comment:</b>			

22. Does the external auditor communicate to the ARMC about new and applicable accounting practices and auditing standards and its impact on the company's financial statements?

Yes <input type="checkbox"/>			No <input type="checkbox"/>
<b>Comment:</b>			



## Section E: Audit scope and planning

23. Does the external audit firm, with the audit engagement partner present, agree to the audit scope and plan with the Audit Committee?

Yes <input type="checkbox"/>			No <input type="checkbox"/>
Comment:			

24. Is the external audit scope and plan adequate to address company/industry-specific areas of accounting risks, audit risks and financial reporting risks faced by the company?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

25. In planning the audit, are adequate considerations given to geographical coverage, resource allocation, level of audit testing and nature of audit reports issued at each location?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

26. Is specialist input to the audit in areas such as taxation, pensions and regulations at an appropriate level?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

27. Are all key operations covered by the external audit?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

28. 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 ARMC?

Yes <input type="checkbox"/>			No <input type="checkbox"/>
Comment:			

### Section F: Audit fees

29. How does the audit fee compare with other similarly sized companies in this industry? (*Note: In this context, a rating of “4” indicates a relatively high fee whilst a rating of “1” indicates a relatively low fee. A fee that is either too high or too low can be of concern.*)

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
<b>Comment:</b>			

30. Rate how the differences between actual and estimated fees are handled.

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
<b>Comment:</b>			

31. Is an assessment conducted on the amount and relationship of audit and non-audit fees and services?

Yes <input type="checkbox"/>			No <input type="checkbox"/>
<b>Comment:</b>			

32. Does the ARMC consider the fee for the external audit practical and sufficient for the scope, size, complexity and risks of the company?

Yes <input type="checkbox"/>			No <input type="checkbox"/>
<b>Comment:</b>			

### Section G: Audit communications

33. Does the external audit firm meet freely, regularly, and on a confidential basis with the ARMC, including being able to communicate to the ARMC if not being provided with sufficient cooperation during the audit?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
<b>Comment:</b>			

34. Does the external audit engagement partner maintain professional and open dialogues with the ARMC and communicate findings and discussions in a frank and complete manner (including matters on management’s reporting process, internal control over financial reporting, etc.)?

Yes <input type="checkbox"/>			No <input type="checkbox"/>
<b>Comment:</b>			



35. Does the external audit firm advise the ARMC about significant issues and new developments regarding risk management, corporate governance, financial accounting and related risks and control matters pertaining to the company on a timely basis?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
<b>Comment:</b>			

36. Does the external auditor discuss the critical accounting policies and whether the accounting treatment is conservative or aggressive?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
<b>Comment:</b>			

37. Does the external audit firm discuss with the ARMC the quality of the company's financial reporting, including the reasonableness of accounting estimates and judgments?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
<b>Comment:</b>			

38. Does the external audit firm resolve accounting issues in a timely manner?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
<b>Comment:</b>			

39. Does the external audit firm seek feedback on the quality and effectiveness of the service they are providing?

Yes <input type="checkbox"/>			No <input type="checkbox"/>
<b>Comment:</b>			

Evaluation carried out by:

Checked and compiled by:

\_\_\_\_\_  
Name:

Designation:

\_\_\_\_\_  
Name:

Designation: