

## **Terms of Reference of the Board Audit Committee**

### **1. COMPOSITION OF THE COMMITTEE**

- 1.1 Members of the BAC shall be appointed by the Board of Directors of TNB and shall consist of not less than three Directors, all of whom must be Non-Executive directors, with the majority being independent, in accordance with the Bursa Malaysia Securities Berhad Main Market Listing Requirements.
- 1.2 Where the members for any reason are reduced to less than three, that Board shall within three months of the event, appoint such number of new members as may be required to make up the minimum number of three members.
- 1.3 At least one member of the Committee must meet the criteria set by the Bursa Malaysia Securities Berhad Main Market Listing Requirements, i.e.:
  - i) must be a member of the Malaysian Institute of Accountants or
  - ii) if he/she is not a member of the Malaysian Institute of Accountants, he must have at least three years' working experience, and:
    - a) must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act 1967; or
    - b) must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.
- 1.4 The Board shall elect a Chairman from the Committee who shall be an Independent Director as set out in the Bursa Malaysia Securities Berhad Main Market Listing Requirements.
- 1.5 The term of office and performance of the Committee shall be reviewed by the Board to determine whether the Committee has carried out its duties in accordance with its terms of reference.
- 1.6 No alternate Directors shall be appointed to the BAC.

### **2. OBJECTIVES OF THE COMMITTEE**

The objectives of the Committee are:

- 2.1 to ensure transparency, integrity and accountability in the Group's activities so as to safeguard the rights and interests of the shareholders;
- 2.2 to provide assistance to the Board in fulfilling its fiduciary responsibilities relating to corporate accounting and reporting practices;

- 2.3 to improve the Group's business efficiency, the quality of the accounting and audit function and strengthen public confidence in the Group's reported financial results;
- 2.4 to maintain, through regularly scheduled meetings, a direct line of communication between the Board and the External and Internal Auditors;
- 2.5 to ensure the independence of the external and internal audit functions; and
- 2.6 to create a climate of discipline and control which will reduce the opportunity for fraud.

### **3. AUTHORITY OF THE COMMITTEE**

The Committee is authorized by the Board to:

- 3.1 investigate any activity within its Terms of Reference; or as directed by the Board of Directors;
- 3.2 determine and obtain the resources required to perform its duties, including approving the budget for the external and internal audit functions;
- 3.3 have full and unrestricted access to all employees, the Group's properties and works, to all books, accounts, records and other information of the Group in whatever form;
- 3.4 have direct communication channels with external auditors and person(s) carrying out the internal audit function or activity for the Group;
- 3.5 direct the Internal Audit Function in the Group;
- 3.6 approve the appointment of the Head of Internal Audit;
- 3.7 engage independent advisers and to secure the attendance of outsiders with relevant experience and expertise if it considered necessary; and
- 3.8 review the adequacy of the structure and Terms of Reference of the Board Committees, including the BAC.

### **4. FUNCTIONS OF THE COMMITTEE**

The functions and responsibilities of the Committee are as follows:

#### **4.1 Corporate Financial Reporting**

- 4.1.1 To review and recommend acceptance or otherwise of accounting policies, principles and practices.

- 4.1.2 To review the quarterly results and annual financial statements of the Company and Group before submission to the Board. The review should focus primarily on:
- i. any changes in existing accounting policies or implementation of new accounting policies;
  - ii. major judgment areas, significant and unusual events;
  - iii. significant adjustments resulting from audit;
  - iv. the going concern assumptions;
  - v. compliance with accounting standards; and
  - vi. compliance with Bursa Malaysia Securities Berhad Main Market Listing Requirements and other legal and statutory requirements.
- 4.1.3 To review with management and the external auditors the results of the audit, including any difficulties encountered.
- 4.1.4 To review and verify the allocation of scheme options pursuant to the Company's Share Issuance Scheme in accordance to the Bursa Malaysia Securities Berhad Main Market Listing Requirements as to provide a statement by audit committee in the annual report.

4.2 **Enterprise Wide Risk Management**

- 4.2.1 To review the adequacy and to provide independent assurance to the Board of the effectiveness of the risk management functions in the TNB Group.
- 4.2.2 To ensure that the principles and requirements of managing risk are consistently adopted throughout the TNB Group.

4.3 **Internal Control**

- 4.3.1 To assess the quality and effectiveness of the system of internal control and the efficiency of the Group's operations.
- 4.3.2 To review the findings on internal control in the Group by the internal and external auditors.

4.4 **Internal Audit**

- 4.4.1 To approve the Corporate Audit Charter of internal audit function in the Group.
- 4.4.2 To ensure that the internal audit function has appropriate standing in the Group and has the necessary authority, resources and competency to carry out its work. This includes a review of the organizational structure, resources, budgets and qualifications of the internal audit personnel.

- 4.4.3 To review internal audit reports and management's response and actions taken in respect of these. Where actions are not taken within an adequate timeframe by management, the BAC will report the matter to the Board.
- 4.4.4 To review the adequacy of internal audit plans and the scope of audits, and ensure that the internal audit functions are carried out without any hindrance.
- 4.4.5 To appraise the performance of Head of Internal Audit.
- 4.4.6 To be informed of resignations and transfers of senior internal audit staff and provide resigning/transferred staff an opportunity to express their views.
- 4.4.7 To direct any special investigation to be carried out by Internal Audit.
- 4.4.8 To review and approve the Statement on Internal Audit Function required under Bursa Malaysia Securities Berhad Main Market Listing Requirements.

4.5 **External Audit**

- 4.5.1 To nominate the External Auditors together with such other functions as may be agreed to by the Board and recommend for approval of the Board the external audit fee, and consider any question of resignation or termination.
- 4.5.2 To review external audit reports and Management's response and actions taken in respect of these. Where actions are not taken within an adequate timeframe by management, the BAC will report the matter to the Board.
- 4.5.3 To review the external audit plans and scope of work.
- 4.5.4 The BAC shall meet the external and internal auditors or both at least twice a year to discuss problems and reservations arising out of audits and any matters the auditors may wish to discuss, in the absence of Management, Executive Directors or Non-independent Directors where necessary.

4.6 **Corporate Governance**

- 4.6.1 To review the effectiveness of the system for monitoring compliance with laws and regulations and the results of Management's investigation and follow up (including disciplinary action) of any instances of non-compliance.
- 4.6.2 To review the findings of any examinations by regulatory authorities.
- 4.6.3 To review any related party transaction or conflict of interest situation that arises within the Group including any transaction, procedure or course of conduct that raises questions of integrity.
- 4.6.4 To review and approve the Statement of Corporate Governance for the annual report as required under Bursa Malaysia Securities Berhad Main Market Listing Requirements.

- 4.6.5 To review the investor relations programme and shareholder communications policy for the company.
- 4.6.6 To examine instances and matters that may have compromised the principles of corporate governance and report back to the Board.
- 4.6.7 Where the BAC is of the view that a matter reported by it to the Board has not been satisfactorily resolved, resulting in a breach of Bursa Malaysia Securities Berhad Main Market Listing Requirements, to promptly report such matters to Bursa Malaysia.

## **5. COMMITTEE MEETINGS**

- 5.1 The Committee shall convene meetings as and when required, and at least six times during the financial year of TNB.
- 5.2 The number of Committee meetings held a year and the details of attendance of each individual member in respect of meetings held should be disclosed in the annual report.
- 5.3 The Chairman, or the Secretary of the Committee on the request of any member, the Head of Internal Audit or the External Auditors, shall at any time summon a meeting of the Committee by giving reasonable notice. It shall not be necessary to give notice of a Committee meeting to any member who at the time is overseas.
- 5.4 No business shall be transacted at any meeting of the Committee unless a quorum of three members is satisfied.
- 5.5 The Chairman of the Committee shall chair the Committee meetings and in his absence, the members present shall elect one amongst themselves to be the Chairman of the meeting.
- 5.6 In appropriate circumstances, the Committee may deal with matters by way of circular reports and resolution in lieu of convening a formal meeting.
- 5.7 Officers of the Group or others as necessary may be invited to attend meetings where the Committee considers their presence necessary.
- 5.8 All recommendations of the Committee shall be submitted to the Board for approval.
- 5.9 A Committee member shall excuse himself/herself from the meeting during discussions or deliberations of any matter which gives rise to an actual or perceived conflict of interest situation for the member. Where this causes insufficient Directors to make up a quorum, the Committee has the right to appoint another one or more Director(s), who meet the membership criteria.
- 5.10 The Committee, through its Chairman, shall report to the Board after each meeting.
- 5.11 Subject to the provisions of these Terms of Reference and Memorandum and Articles of Association of TNB, the Committee shall establish its own procedures for meetings.

**6. SECRETARY OF THE COMMITTEE**

- 6.1 The Secretary of the Committee shall be the Company Secretary.
- 6.2 The Secretary shall draw up an agenda for each meeting, in consultation with the Chairman of the Committee. The Agenda shall be sent to all members of the Committee and the Head of Internal Audit at least three working days before each meeting together with the relevant papers.
- 6.3 The Secretary shall promptly prepare the written minutes of the meeting and distribute it to each member. The minutes of the Committee meeting shall be confirmed and signed by the Chairman of the meeting at the next meeting.
- 6.4 The minutes of each meeting shall be entered into the minutes book kept at the registered office of the Company under the custody of the Company Secretary. The minutes shall be available for inspection by members of the Board, external auditors, internal auditors, and other persons deemed appropriate by the Company Secretary.

**7. DISCLOSURE**

- 7.1 The Committee shall assist the Board in making disclosures concerning the activities of the Committee, in the Report of the Board Audit Committee, to be issued in the annual report.
- 7.2 The Board requires all Directors to submit a Disclosure of Interest to avoid any conflict between their personal interests and the interests of the Company. In the event of a conflict, either perceived or actual, this Disclosure of Interest shall be submitted to the Chairman of the Committee with a copy to the Company Secretary.

**8. REVISION OF THE TERMS OF REFERENCE**

- 8.1 Any revision or amendment to the Terms of Reference, as proposed by the Committee or any third party, shall be presented to the Board for its approval.
- 8.2 Upon the Board's approval, the said revision or amendment shall form part of these Terms of Reference and this Terms of Reference, which shall be considered duly revised or amended.