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**BOARD AUDIT COMMITTEE**  
**TERMS OF REFERENCE**

*Approved by the Board of Directors on 26 November 2020*

**1.0 OBJECTIVES**

- 1.1 The Board Audit Committee ("**BAC**") is established with the primary objective of assisting the Board of Directors ("**Board**") of VELESTO ENERGY BERHAD ("**VELESTO**") in fulfilling its fiduciary responsibilities relating to financial and accounting practices in accordance to accounting standards and maintained a sound system of internal control of VELESTO Group.

**2.0 FUNCTIONS**

The BAC functions are to review, evaluate and report to the Board on these following matters:-

- 2.1 **Oversee Financial Reporting**
- a. BAC to review the quarterly, half-yearly and annual financial statements for recommendation to the Board for approval, focusing particularly on:
- Changes in or implementation of major accounting policy changes.
  - Significant matters highlighted including financial reporting issues, significant judgements made by management, significant and unusual events or transactions, and how these matters are addressed.
  - Assess the company's financial position and going concern assumption.
  - Compliance with accounting standards, statutory and other legal requirements.
  - Discuss problems and reservations arising from the interim and final audits, and any matter the auditors may wish to discuss (in the absence of management where necessary), and to review the external auditors' management letter and management's response.
- 2.2 **Review Conflict of Interest Situations and Related Party Transactions**
- a. BAC to review related party transaction to ensure that they are in the best interest of the VELESTO Group, fair, reasonable, at arm's length and undertaken on the Group's normal commercial terms, and not detrimental to the interest of the minority shareholders; and
- b. BAC to ensure internal control procedures with regards to such transactions are sufficient and review any conflicts of interest situations.

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2.3 Assess the Internal Control Environment

- a. Consider major findings of internal investigations (by internal and external auditors) and management's response; and
- b. Review the adequacy and effectiveness of VELESTO Group's finance and accounting procedures and policies which includes the Limits of Authority, the adequacy and effectiveness of its risk management and internal control systems as well as the financial reporting standards.

2.4 Evaluate Internal Audit Process

- a. BAC to ensure the Internal Audit functions is effective and able to function independently:
  - BAC to evaluate and approve the appointment and removal of Head of Internal Audit.
  - BAC to review and approve the scope of work of Internal Audit.
  - BAC to evaluate the annual performance of Head of Internal Audit.
  - BAC to review and approve the Internal Audit Charter, Annual Budget and Annual Audit Plan.
  - BAC to ensure that the person responsible for Internal Audit has relevant experience, sufficient standing and authority to enable him to discharge his functions effectively.
  - BAC to ensure that internal audit has sufficient resources and is able to access information to enable it to carry out its role effectively.
  - BAC to ensure that the personnel assigned to undertake internal audit have the necessary competency, experience and resources to carry out the function effectively.
  - BAC to review the internal audit plan, processes, the results of the internal audit assessments, investigation undertaken and whether or not appropriate action is taken on the recommendations.
  - BAC may direct Internal Audit to carry out special investigation.

2.5 Evaluate External Audit Process

- a. Consider and recommend the appointment of the external auditors, the audit fee and any questions of resignation or dismissal; and
- b. BAC to discuss with external auditors on the following: -
  - Audit plan.
  - Evaluation of the system of internal controls.
  - Audit reports.
  - Any assistance given by the VELESTO Group's employees to the auditors.
  - Nature and scope of audit.
  - Co-ordination of audit where more than one audit firm is involved (if applicable).
  - Effectiveness of the management information system including suggestion for improvement and Management's response.

- c. BAC to 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 the appropriateness of the level of fees.
  - 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.

### **3.0 AUTHORITY AND RIGHTS**

- 3.1 Without limiting the generality of the above functions, the BAC, may consider such other matters as directed or defined by the Board, from time to time.
- 3.2 The BAC has rights to:
- a. Have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity; and
  - b. Promptly reports to Bursa Malaysia any unresolved breach to the requirements of Main Market Listing Requirements by the Company.

### **4.0 SIZE AND COMPOSITIONS**

- 4.1 The members of BAC are appointed by the Board from among its members. The BAC shall comprise of minimum member of four (4). All of them must be Non-executive Directors, with a majority of whom are Independent Non- Executive Director (“INED”).
- 4.2 At least one (1) member of the BAC:
- a. Must be a member of the Malaysian Institute of Accountants (“MIA”); or
  - b. If he is not a member of the MIA, he must have at least 3 years’ working experience and he must have passed the examination specified in Part I of the First Schedule of the Accountants Act 1967; or he must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967; or
  - c. Fulfils such other requirements as prescribed or approved by the Exchange.

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- 4.3 In the event of any vacancy in BAC resulting in the non-compliance of the composition and chairman, the Board must fill the vacancy within 3 months.
- 4.4 No alternate director is appointed as a member of the BAC.
- 4.5 The BAC should possess a wide range of necessary skills to discharge its duties. All members should be financially literate and are able to understand matters under the purview of the BAC including the financial reporting process.
- 4.6 All members of the BAC should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.
- 4.7 The BAC has a policy that requires a former key audit partner to observe a cooling-off period of at least two years before being appointed as a member of the BAC.

## **5.0 CHAIRMAN**

- 5.1 The Chairman of BAC must be an Independent Non-Executive Director.
- 5.2 The Chairman of the BAC is not the Chairman of the Board.

## **6.0 MEETINGS, QUORUM AND PROCEDURES**

- 6.1 Frequency
- a. The BAC meets on a quarterly basis to carry out its functions although additional meetings may be called at any time as and when necessary.
  - b. The BAC may invite such other senior management of the Company, including but not limited to the President, Chief Financial Officer and Internal Auditor to attend the meeting, to provide information and clarification required on items on the agenda. Representatives of the external auditors are also invited to attend the meeting to present their audit scope and plan, audit report and findings together with management's response thereto, and to brief the BAC on significant audit and accounting areas which they noted in the course of their audit.
  - c. The BAC shall meet with the external auditors, minimum two (2) times during the year under review and without the presence of any executive or executive directors.

**6.2 Quorum**

- a. The quorum for each meeting shall be three (3) persons, with the majority of members present forming a quorum in respect of such meetings shall be of Independent Non-Executive Directors.

**6.3 Meeting Mode**

- a. To enable effective discussion, a face-to-face meeting shall be conducted. However, meeting may also be conducted via other appropriate telecommunication mode.

**6.4 Voting**

- a. All resolutions of the BAC shall be adopted by a simple majority vote. In case of a tie, the Chairman shall have a second or casting vote.

**6.5 Meeting Minutes**

- a. Minutes of each meeting are kept by the Company Secretary as evidence that the BAC has discharged its functions.
- b. The minutes of the meeting shall record the deliberations, decisions and agreed actions of the BAC. Copies of the draft minutes shall be distributed to BAC members within a week from the meeting and finalized within 3 weeks.
- c. The Chairman of the BAC reports to the Board after each meeting. The approved minutes of BAC meetings are forwarded to Board members for information and significant issues are discussed at Board meetings.

**7.0 BOARD AUDIT COMMITTEE REPORT****7.1 Prepare a report on the BAC at the end of the financial year for inclusion in the Annual Report that complies the following:**

- a. The composition of the BAC, including the name, designation (indicating the Chairman) and directorship of the members (indicating whether the directors are independent or otherwise);
- b. The number of BAC meetings held during the financial year and details of attendance of each BAC member;
- c. A summary of the work of the BAC in the discharge of its functions and duties for that financial year of the listed issuer and how it has met its responsibilities; and
- d. A summary of the work of the internal audit function.

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**8.0 REVIEW OF THE BOARD AUDIT COMMITTEE**

Board Nomination and Remuneration Committee (“**BNRC**”) must review the term of office and performance of the BAC and each of its members annually to determine whether the BAC members have carried out their duties in accordance with their terms of reference.

**9.0 THE TERMS OF REFERENCE**

- 9.1 BAC must have written terms of reference which deal with its authority and duties, and such information must be made available on the company’s website.
- 9.2 The BAC shall review and assess the adequacy of this Terms of Reference on a periodic basis determined by the BAC or as and when necessary. Any revision or amendments to the Terms of Reference shall be approved by the Board.
- 9.3 The BAC shall decide on its own administrative procedures to effectively discharge its responsibilities.