

**CONFIDENTIAL**



**SERBA DINAMIK HOLDINGS BERHAD**

**INTERNAL AUDIT CHARTER**

**(Approved by the Board of Directors on 20 May 2020)**

Prepared by:



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## 1. ILLUSTRATION



## 2. INTRODUCTION & PURPOSE OF INTERNAL AUDIT CHARTER

The purpose of this charter is to establish the position of the Internal Audit function within the structure of SDHB and its subsidiaries (collectively the “Group”) in order to authorize the Internal Audit Function (“IAF”) in accessing all records, personnel and physical properties relevant to the performance of audit exercise. This charter describes the mission, vision, independence and objectivity, scope and responsibilities, authority, accountability, standards and the structure of the Function.

The IAF is an independent function which provides objective assurance and consulting activity, guided by a philosophy of adding value to improve the operations of the Group.

It assists the Group in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Group’s risk management processes, control assurances and corporate governance practices.

The IAF is established by the Board, and its responsibilities are defined by the ARC as part of their oversight function.

This Charter is prepared in accordance to compliance with the International Professional Practices Framework (“IPPF”) issued by the Institute of Internal Auditors.

### 3. OBJECTIVES

The objectives of the IAF are as follows:

- To provide objective assurance function to the management and the Board on the effectiveness of enterprise risk management activities to help ensure key business risks are being managed appropriately, and that the system of internal control is operating effectively.
- To provide independent and objective assessment on the appropriateness of the Group's governance structure and operating effectiveness of specific governance activities.

### 4. MISSION

The mission of Internal Audit is to be an independent, objective assurance function and by advising on best practice to add value and improve the operations of the Group to accomplish its objectives, and evaluate and improve the effectiveness of risk management, control and governance process.

The vision of Internal Audit is to be a valued, effective and continually improving Function for the benefit of the Group.

### 5. PROFESSIONAL STANDARDS

The IAF staff shall govern themselves by adherence to the IIA Code of Ethics and shall meet or exceed the IIA's International Standards for the Professional Practice of Internal Auditing as approved by The Institute of Internal Auditors.

In addition, the IAF shall also adhere to the Group's standard operating procedures and policies.

Please refer **Appendix A** for IIA Code of Ethics.

### 6. AUTHORITY & ORGANIZATION

The IAF is accountable and responsible to the Group's ARC whereby the CIA shall have unrestricted access to the Chairman of ARC. This reporting structure reinforces the independence and objectivity of the IAF.

The Internal Auditors are authorized to have unrestricted access to all of the Group's Functions, records (irrespective of the medium), functions, property and personnel which are relevant for a review and all the Group's employees are requested to assist the IAF.

Documents and information given to the Internal Auditors during a review shall be kept and handled in the same prudent manners as the relevant staff who would normally account for them.

The IAF shall update ARC on actions taken by the Management and either the findings were rectified by the Management, in respect to the agreed findings, after a period of 6-month, upon completion of the Audit, in which this shall be incorporated in the Internal Audit Charter, to be approved by ARC.

## **7. RESPONSIBILITIES & INDEPENDENCE**

The IAF is responsible for planning, conducting, reporting and following up on audit projects included in the audit plan, and decides on the scope and timing of audits. All IAF activities shall remain free of influence by any element in the Group including matters of audit selection, scope, procedures, frequency, timing or report content.

Internal Auditors shall not have direct operational responsibility or authority over corporate activities of the Group. The formulation and implementation of a sound system of risk management processes, internal control assurances and corporate governance practices shall solely be the responsibility of the management.

The Internal Auditors shall be independent in carrying out all audit activities and shall assert no direct responsibility or authority over the activities reviewed.

The Internal Auditors do not relieve any of the Group's staff of any responsibilities assigned to them, as such do not develop or introduce procedures, prepare records, and engage in activities which could otherwise be construed as compromising the objectivity and independence of the IAF. Any recommendations on standards of control to be applied on a specific activity may be included in the written report of the audit findings and opinions, which is given to the management of the Group for review and implementation.

The management of the Group is responsible for establishing and maintaining controls to discourage any perpetration of fraud. The Internal Auditors are responsible for examining and evaluating the adequacy and effectiveness of action taken by the management in fulfilling this obligation. The Internal Auditors should have sufficient knowledge of fraud to be able to identify indicators that fraud might have been perpetrated. The Internal Auditors however are not expected to have the knowledge equivalent to that of a person whose primary responsibility is to detect and investigate fraud. In certain circumstances, there is no guarantee that fraud will be detected by applying audit procedures even with due professional care. Nevertheless, it has been recognized that the performance of audits and reviews may include the assistance of an expert from other specific professions or disciplines.

All IAF activities are to be carried out in compliance with the Group's objectives and policies, the Code of Ethics and the Standards for the Professional Practice of Internal Auditing as approved by The Institute of Internal Auditors.

## 8. AUDIT SCOPE & DUTIES

The general scope and responsibilities of the IAF include but are not limited to, conducting reviews, examination and evaluation of the adequacy and effectiveness of the Group's risk management processes, internal control assurance and corporate governance practices in carrying out assigned responsibilities to achieve the Group's stated mission and vision.

The responsibilities further include the following:

- To develop and prepare an annual audit plan of work using appropriate risk-based methodology and approach and submit to ARC for review and approval.
- To review the reliability and integrity of any financial information via financial reporting statements and accounts and the means used to identify, measure, classify and report such information.
- To review the adequacy of the Group's risk management framework in identifying and evaluating the adequacy and effectiveness of risk management processes.
- To review the systems performance which have been established to ensure compliance with policies, procedures, laws and regulations which could have a significant impact on operations and adequacy and effectiveness of governance practices.
- To review the system of internal controls of the Group to ensure its adequacy and integrity in managing principal risks and controls.
- To carry out risk-based audits of strategic business units of the Group which covers review of internal control assurance, accounting, management information system, risk management processes and corporate governance practices including ad-hoc assignment initiated or instructed by ARC, the Board or the management.
- To obtain management's comments and action plans on audit findings and evaluate the relevant and effectiveness of the comments and action plans.
- To ensure that management's action plans shall include a timetable for anticipated completion of action to be taken and an explanation for any recommendations not addressed.
- To distribute audit reports upon completion of audits to members of ARC, GMD / CEO and auditees. To follow-up with management to ensure adequate, appropriate and effective corrective actions are taken on timely basis.
- To review the safeguarding of assets and verify the existence of assets.
- To review any operation or program in ascertaining whether the operations are carried out as planned and the results are in line with the established objectives and goals.

- To maintain a comprehensive IAF manual setting out minimum internal auditing standard, work programs, audit procedures and update practices to guide the work of the Internal Auditors.
- To ensure all significant findings shall remain as open until cleared by the CIA or ARC.
- To be consulted on internal controls for new and major system changes prior to implementation to ensure adequate internal controls and documentations are in place.
- To evaluate potential exposure or risk in various segments of the Group's operations.
- To attend all ARC meetings to table and discuss the audit reports and follow up on matters raised.

The Internal Auditor, in the discharge of his/her duties, shall be accountable to ARC to:

- Assess the adequacy and effectiveness of the Group's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues related to the processes for controlling the activities of the Group and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Provide information periodically on the status and results of the annual audit plan and the sufficiency of Function resources.
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal and ethics, environmental and external audit).

## **9. AUDIT PLANNING**

- Annually, the CIA shall submit to ARC a summary of the audit work schedule, staffing plan and budget for the fiscal year.
- The audit work schedule is to be developed based on a prioritization of the audit universe using a risk-based methodology and approach.
- Any significant deviation from the formally approved work schedule shall be communicated to ARC through periodic activity reports for approval.

## 10. PERIODIC ASSESSMENT

The Head of the IAF should periodically assess whether the purpose, authority, and responsibility, as defined in this charter, continue to be adequate to enable the internal auditing activity to accomplish its objectives.

The result of this periodic assessment shall be communicated to ARC and the Board.

## 11. REPORTING & MONITORING

A written report will be prepared and issued by the CIA or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Board.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

The CIA will periodically report to senior management and the Board on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan.

Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Board.

## 12. CHARTER REVIEW

- Review the charter at least annually and update it as needed to respond to new risk-oversight needs and any changes in regulatory or other requirements;
- Review and approve the management-level risk committee charter, if applicable;
- Perform any other activities consistent with this charter, the Group's bylaws, and governing laws that the Board or Risk Committee determines are necessary or appropriate; and
- Submit the charter to the full Board for approval.

## **APPENDIX A**

### **CODE OF ETHICS**

#### **PRINCIPLES**

Internal auditors are expected to apply and uphold the following principles:

1. **Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

2. **Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

3. **Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

4. **Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

### **RULES OF CONDUCT**

1. **Integrity**

Internal auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. **Objectivity**

Internal auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.