

IOI CORPORATION BERHAD (9027-W)

POLICIES AND PROCEDURES TO ASSESS THE SUITABILITY AND INDEPENDENCE OF EXTERNAL AUDITORS

The Board and its Audit and Risk Management Committee (the “**ARMC**”) of IOI Corporation Berhad (“**IOIC**” or the “**Company**”) are committed to ensuring the suitability and independence of external auditors in substance as well as in form.

The independence of the external auditors is a key governance issue for IOIC Group. On an annual basis, the ARMC should ensure the independence and impartiality of the external auditors, taking into consideration relevant regulatory requirements.

Management shall obtain 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.

1. Selection criteria

Some of the matters for consideration regarding appointment, reappointment and removal of IOIC Group’s external auditors by the ARMC include:-

1.1 Fees

A candidate must provide a fixed fee quotation for its audit services. However, price will not be the sole determining factor in the selection of a preferred external auditors.

1.2 Independence

A candidate must satisfy the ARMC that it is independent and outline the procedures it has in place to maintain its independence. The external auditors must be independent from IOIC Group and be seen to be independent from IOIC Group.

The independence of the external auditors is integral to the role of auditors and the ARMC will give due consideration to this requirement when selecting a preferred auditors for recommendation to the Board.

1.3 Material matters

A candidate must outline its proposed procedures to address the issue of material significance or matter of disagreement with IOIC management. The external auditors will be required to disclose to the ARC all issues of material significance and all matters of disagreement with IOIC management, whether resolved or unresolved, and to assist the ARMC to review such matters.

1.4 Non-audit work

A candidate must detail its approach to the provision of non-audit related services to IOIC Group.

1.5 Competency and Resources

Audit quality increases with audit firm size because of experience and functional industry knowledge. Typically, large or global companies require the expansive resources, in terms of personnel, expertise and worldwide availability.

The ARMC could consider the candidate firm's reputation and qualifications of its professionals, including the breadth and depth of resources, expertise and experience of the team members. Their networking ability and competency to address overseas subsidiaries not audited by the firm, i.e. its liaison capability with the secondary auditors, are equally important to assess the suitability.

1.6 Industry specialty

Industry specialty should provide higher quality audits for three reasons: better audit technologies, lower costs due to economies of scale and superior knowledge due to economies of knowledge. In addition, industry experience can improve the detection of fraudulent reporting and task-level performance.

2. Approval of non-audit services

The policy on audit and non-audit services is guided by the following principles: -

- (a) the auditors may provide audit and non-audit related services that, while outside the scope of the statutory audit, are consistent with the role of auditors;
- (b) the external auditors should not provide services that are perceived to be materially in conflict with the role of auditors;
- (c) the external auditors may be permitted to provide non-audit services that are not perceived to be materially in conflict with the role of auditors; and
- (d) exceptions may be made to the policy where the variation is in the interest of IOIC and arrangements are put in place to preserve the integrity of the external audit process. The Board must specifically approve any such exception.

Before appointing the external auditors to undertake a non-audit service, considerations should be given to whether this would create a threat to the external auditors' independence or objectivity. The external auditors should not be appointed unless appropriate safeguards are present to eliminate or reduce the threat to an acceptable level. External auditors shall not be considered for non-audit services specifically prohibited by the by-laws of the Malaysian Institute of Accountants ("MIA") or promulgations of the International Federation of Accountants for which no safeguard can eliminate or reduce the threat on the external auditors' independence.

The subsidiary or entity must inform the Chief Financial Officer ("CFO") of the non-audit services and the estimated fees to be incurred.

The subsidiary or entity can only proceed with the non-audit service work when authorised by the CFO.

Engagements of external auditors to provide non-recurring and/or unplanned non-audit services must be approved as follows :-

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<u>Approval thresholds for non-audit work</u>	<u>Approver</u>
Below RM200,000 per engagement	Chief Financial Officer
Above RM200,000 and up to RM500,000 per engagement	Chief Executive Officer
Greater than RM500,000 per engagement, or if the value of non-audit fees to audit fees reaches a ratio of 1:2 as a result of a new engagement, regardless of value	Committee

3. Monitoring and Reporting

The CFO shall report to the ARC on an annual basis on any significant non-audit services and its related fees on non-audit rendered to IOIC Group or its subsidiaries by the external auditors.

4. Rotation of external audit engagement partner

The audit partner responsible for the external audit of IOIC Group is subject to rotation at least every 5 years in accordance with By-Laws of the MIA.

ARMC requires at least a two year “cooling off” period before any key audit partner of the external auditor is appointed as a Director of the Company.

5. Review of Audit arrangements

The ARMC will review the external auditors’ performance annually. As part of this review the ARMC will obtain feedback from the members of senior management regarding the quality of the audit service.

Revised and approved on 24 August 2015.