



**TERMS OF REFERENCE**  
**OF**  
**THE BOARD AUDIT COMMITTEE**  
**("BAC" or "the Committee")**  
**OF BANK PERTANIAN MALAYSIA BERHAD ("Agrobank" or "the Bank")**

- Membership of the BAC : At least three (3) directors, including the Chairman of the Committee.
- Required Attendance for BAC Meeting :  
i. President/Chief Executive Officer; and/or  
ii. Chairman or Alternate Chairman of Management Audit Committee;  
iii. Chief Internal Auditor; and  
iv. Any person may be invited at the discretion of the Chairman of the Committee, to attend the meeting if it is considered necessary.
- Secretary : The Company Secretary of the Bank or his or her nominee or any person designated by the Committee.
- Quorum for BAC Meeting : A minimum of three (3) directors, including the Chairman of the Committee.
- Frequency of BAC Meeting : The BAC meeting shall be held once in two (2) months or at a minimum of six (6) times a year or at any such number of time(s) as the Committee requires or may deem necessary to fulfil the Committee's responsibilities.

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## **1.0 OBJECTIVES**

The BAC is responsible to assist the Board of Directors (“the Board”) of Bank Pertanian Malaysia Berhad (“Agrobank” or “the Bank”) in providing independent oversight in fulfilling its legal and fiduciary duties concerning matters involving financial reporting and internal controls, compliance with laws and regulations, and ensuring checks and balances within the Bank, including matters related to Shariah.

## **2.0 ROLES AND RESPONSIBILITIES**

### **2.1 Financial Reporting**

The Committee shall: -

- i. Be responsible in ensuring the financial statements prepared give a true and fair view of the state of affair and the results of the business of the Bank”<sup>1</sup>;
- ii. Monitor the integrity and credibility of the financial statements, including its annual and interim financial reports, preliminary results announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Committee shall review the accuracy and adequacy of the Chairman’s statement in the directors’ report, corporate governance disclosure, summary financial statement, significant financial returns to regulators and any financial information contained in certain other documents;
- iii. Review on the following but not limited to: -
  - a) the consistency of, and any changes to, critical accounting policies and practices;
  - b) the methods used to account for significant or unusual transactions where different approaches are possible;
  - c) whether the Bank has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - d) the clarity of disclosure in the Bank’s financial statement reports and the context in which statements are made;

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<sup>1</sup> Paragraph 9.2 Financial Reporting for DFI

- e) the compliance with the key principles on disclosure of information in accordance with the statutory requirements, including but not limited to specific requirements on the application of the MFRS, Shariah principles as well as specific disclosure requirements on developmental or mandate achievements;
  - f) significant adjustments resulting from the audit;
  - g) the going concern assumption; and
  - h) compliance with other legal requirements and regulatory requirements;
- iv. Ensure that the accounts are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies, bad and doubtful debts;
  - v. Review significant accounting policies, accounting practices and financial reporting control to ensure it is appropriate and adequate on an on-going basis;
  - vi. Responsible to investigate potential infractions or discrepancies and report to the Board for further review or action, if the audit reveals any outliers, indiscretion, disputes or difficulties; and
  - vii. Review tax compliance and Letter of Representative prior to sign off.

## **2.2 Internal Control and Risk Management**

The Committee shall: -

- i. Review the effectiveness of the Bank's internal controls and risk management systems;
- ii. Review and approve the statements to be included in the annual report concerning internal controls and risk management;
- iii. Review the effectiveness of risk oversight and management and assess the Bank's fraud risk and action to mitigate such risk, including but not limited to fraud risk;
- iv. Review third-party opinions on the design and effectiveness of the Bank's internal control framework;
- v. Review internal controls, including the scope of the internal audit programme, the internal audit findings and recommend action to be taken by the Management. The reports of internal auditors and the Committee should not be subject to the clearance of the President/Chief Executive Officer;

- vi. Review all third/related party transactions and keep the Board informed of such transactions; and
- vii. Review and monitor compliance with the regulatory requirements including but not limited to Board's conflict of interest policy and any other various areas related to Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) credit, governance and IT related matters, or any other relevant areas introduced by the regulators, from time to time.

### **2.3 Internal Audit**

The Committee shall: -

- i. Establish a mechanism to monitor, assess and review the effectiveness of the Bank's internal audit function including Shariah in the context of the Bank's overall risk management system and ensure compliance of BNM/RH/GL/013-4 requirement;
- ii. Approve the appointment, set compensation, evaluate performance and removal of the Chief Internal Auditor. The Committee should evaluate the performance and decide on the remuneration package of the internal auditors<sup>2</sup>;
- iii. Consider and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to perform its role effectively and in accordance with the relevant professional standards;
- iv. Review, assess and approve the annual and revised audit plan, scope, procedures and frequency<sup>3</sup>;
- v. Review and recommend the Audit Charter for the Board's approval, so that the internal audit function can be discharged effectively;
- vi. Review key audit reports including reports on internal controls, risk management processes, compliance with statutory requirements and governance practices and ensuring that the Senior Management is taking the necessary corrective actions on a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the audit and other control functions<sup>4</sup>;
- vii. Review regularly the procedures either for detecting fraud or procedure/manual in managing internal audit operation;

<sup>2</sup> Paragraph 2.5 of BNM/RH/GL/013-4 - Guidelines on Internal Audit Function of Licensed Institutions

<sup>3</sup> Item 8(a) of Appendix 1 of BNM Policy Document on Corporate Governance for DFI

<sup>4</sup> Item 8(b) of Appendix 1 of BNM Policy Document on Corporate Governance for DFI

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- viii. Review internal audit activities findings and recommendation and monitor management responsiveness to the finding and recommendations of the internal auditors;
  - ix. Noting significant disagreements between the Chief Internal Auditor and the rest of the Management team, irrespective whether these disagreements may have impact on the audit process or findings<sup>5</sup>; and
  - x. Seek assurance as it may deem appropriate that the function is independent, adequately resourced and has appropriate standing within the Bank.

## **2.4 Whistleblowing**

The Committee shall: -

- i. Review the Bank's channels for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;
- ii. Ensure that these channels allow a proportionate and independent investigation of such matters and appropriate follow up action; and
- iii. Receive a full investigation report upon completion of the investigation.

## **2.5 External Audit**

The Committee shall: -

- i. Consider and make recommendations to the Board each year on the appointment/re-appointment, resignation or removal/termination or change of the external auditor. The qualification criteria of an auditor must be in compliance with Bank Negara Malaysia's Policy Document<sup>6</sup> and to comply with the application procedures<sup>7</sup>;
- ii. Ensure that the Bank has policies and procedures to assess the suitability, objectivity and independence of the external auditor to safeguard the quality and reliability of audited financial statement<sup>8</sup>;
- iii. Oversee the selection process for new auditors and if an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any further action is required;

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<sup>5</sup> Item 8(c) of Appendix 1 of BNM Policy Document on Corporate Governance for DFI

<sup>6</sup> Paragraph 7.3 of BNM Policy Document on External Auditor

<sup>7</sup> Section 4(1) Bank's Guidelines on appointment of External Auditor

<sup>8</sup> Practice 9.3 Malaysian Code on Corporate Governance

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- iv. Provide oversight over the external auditor including but not limited to the following, and to ensure that the same are in compliance with BNM's Policy Documents: -
- a. Making recommendations to the Board on the remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
  - b. Approving the terms of engagement as external auditor, including engagement letter issued at the start of each financial audit and the scope of the audit;
  - c. Satisfying itself that there is no relationship (such as family, employment, investment, financial or business) between the auditor and the Bank (other than in the ordinary course of business);
  - d. Monitoring and assessing the independence of the external auditor including by approving provision of the non-audit services by external auditors. To ensure policies and procedures that addresses the requirement for non-audit services approved before they are rendered by the external auditor and its affiliates while taking into account the nature and extent of the non-audit services and the appropriateness of the level of fees, the Committee should avoid situations where the audit firm inadvertently assumes the responsibilities of the Management in the course of providing non-audit services<sup>9</sup>; and
  - e. Ensuring that the Senior Management is taking necessary corrective actions on a timely manner to address external audit findings and recommendations;
- v. Maintain regular, timely, open and honest communication with the external auditor which requires the external auditor to report on significant matters, including once at the planning stage before the audit and once after the audit at the reporting stage;
- vi. Monitor and assess the effectiveness of the external audit, including meeting with the external auditor at least once a year, without the presence of the Senior Management, to discuss their remit and any issues arising from the audit;
- vii. Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;

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<sup>9</sup> Practice 9.3 of Malaysian Code on Corporate Governance

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- viii. Review the findings of the audit with external auditor. This shall include but not limited to, the following: -
- a. A discussion of any major issues which arose during the audit;
  - b. Any accounting and audit judgements; and
  - c. Level of errors identified during the audit;

## **2.6 OTHER DUTIES**

The Committee shall: -

- i. Evaluate the adequacy of systems and procedures in order to ensure compliance with laws, which includes Malaysian Anti-Corruption Commission (Amendment) Act 2018 and other regulatory requirements and internal policies and procedures;
- ii. Review and ensure the effectiveness of the internal technology audit function, including providing adequate competencies available to perform technology audits and effective oversight over the prompt closure of corrective actions to address technology control gaps<sup>10</sup>;
- iii. Conduct a separate meeting with Chief Internal Auditor, including Acting or Covering position or any relief person to assume the position, without the presence of the Management at least once a year<sup>11</sup>;
- iv. Review other independent reports by the relevant authority(ies) with regard to the issues and status of rectification by the Management which includes Composite Risk Rating by BNM;
- v. Invite any independent external expert on specific technical matters as and when required;
- vi. Engage external experts to carry out a review, in the circumstances internal audit is or not sufficiently proficient in specialised areas. The Committee shall ensure the terms and scope of engagement, the working arrangement and reporting requirements are clearly established;
- vii. Undertake other duties as directed by the Board from time to time.

## **2.7 INDEPENDENT THIRD-PARTY EXPERT VIEWS/ADVISE**

To accomplish the roles and responsibilities as stipulated in 2.1 until 2.6, and any other specific or ad hoc matters that deemed necessary, the BAC may seek an independent third-party expert's views/advise on the matters determined by the Committee or upon directive from the Board.

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<sup>10</sup> Paragraph 8.7 of BNM Policy Document on Risk Management in Technology

<sup>11</sup> Paragraph 2.2 of Guidance for an Effective Internal Audit Function

### **3.0 AUTHORITY**

The Committee is authorised by the Board to act within its TOR: -

- a. To deliberate and approve on matters within its primary duties and responsibilities within this TOR or such limits as may be determined by the Board from time to time;
- b. To obtain the resources which it requires including but not limited to obtaining an independent professional advice and expert advice, both internal and external, and to have full and unrestricted access to information to enable the Committee to fulfil its objectives; and
- c. To have a direct communication and on continuous basis with the Senior Management in order to be kept informed of matters affecting the Bank.