

## AUDIT COMMITTEE REPORT

The Board of Directors of Far East Holdings Berhad (“FEHB”) is pleased to present the Audit Committee Report (the Committee previously known as Audit and Risk Management Committee) for the financial year ended 31 December 2019. The Company has established a separate stand-alone Risk Management Committee effective from January 2020 with majority of its members being independent.

During the financial year, the Audit Committee carried out its duties and responsibilities in accordance with its terms of reference and held discussions with the external auditors, Head of Internal Audit and members of the management. The Audit Committee is of the view that no material misstatements or losses, contingencies or uncertainties have arisen, based on the reviews made and discussions held.

### COMPOSITION AND ATTENDANCE OF THE AUDIT COMMITTEE AT MEETINGS

The Audit Committee was appointed by the Board of Directors from amongst the Non-Executive Directors and consists of not less than three (3) members, with a majority of them being Independent Directors.

The biography of each member of the Audit Committee is set out in the Directors’ Profile section. Listed below the current composition of the Audit Committee:-

Members	Membership	Appointment	Tenure on the Audit Committee (Years)
YH Datuk Mohd Afrizan Bin Husain	Chairman, Independent Non-Executive Director	01.11.2018	Less than 2
Encik Nik Mohamed Zaki Bin Nik Yusoff	Member, Independent Non-Executive Director	08.07.2015	4

The Chairman of the Audit Committee is not the Chairman of the Board.

The composition of Audit Committee meets the requirements of paragraph 15.09 (1) (c) of Bursa Securities Listing Requirements which stipulate that at least one (1) member of the Audit Committee must be a qualified accountant.

The Committee operates under the Terms and Reference of Audit Committee containing provisions that address requirements imposed by Bursa Malaysia and the Terms of Reference is published under the Governance section on the Company’s website at [www.fehb.com.my](http://www.fehb.com.my) or can be obtained from the Company Secretaries.

During the financial year ended 31 December 2019, the Audit Committee held a total of five (5) meetings. Details are as follows:-

No.	1	2	3	4	5
Date	20 February 2019	28 March 2019	15 May 2019	27 August 2019	18 November 2019

The details of attendance of the Audit Committee members are as follows:-

Name of Audit Committee Members	Total Number of Meetings	Number of Meetings Attended	Date of Resignation
YH Datuk Mohd Afrizan Bin Husain	5	5	-
YH Dato’ Tan Bing Hua	5	5	31 March 2020
Encik Nik Mohamed Zaki Bin Nik Yusoff	5	5	-

The representatives of the external auditors, the Head of Internal Audit and members of the management attended the meetings upon the invitation of the Committee.



# Audit Committee Report

## COMPOSITION AND ATTENDANCE OF THE AUDIT COMMITTEE AT MEETINGS (CONT'D)

There was a private session held on 20 February 2019 with the external auditors without the presence of management to discuss on issues and significant matters that the external auditors wished to raise.

The external and internal auditors also met on 24 February 2020 to discuss on issues pertaining to the principal risks, follow-up actions taken by the management and also scopes/areas of audit to be covered by both parties.

The Company Secretaries act as Secretaries of the Committee. Minutes of each meeting are kept and circulated to each Board member. The Chairman of the Committee reports on principal matters deliberated at each meeting to the Board.

## DUTIES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

The duties and responsibilities of the Committee are as follows:-

### 1. Financial Reporting

- To review the quarterly results and year-end financial statements of the Company and Group, and to recommend the same to the Board for approval, focusing particularly on the following:-
  - any changes in accounting policies and practices;
  - significant adjustments arising from the audit;
  - the going concern assumption;
  - significant and unusual events;
  - compliance with accounting standards, Bursa Malaysia Securities Berhad and other legal-requirements; and
  - announcements of financial results to Bursa Malaysia Securities Berhad and dividend payments.
- To obtain explanations from management for unusual variances in the Company's annual financial statements from year to year, and review annually the independent auditors' letter of the recommendations to management and management's response.
- To review with the external and internal auditors whether the employees of the Group have given appropriate assistance in discharging their duties.
- To review any related party transaction and conflict of interest situation that may arise within the Company or the Group, including any transaction, procedure or course of conduct that raises questions of management integrity.
- To consider and examine such other matters as the Board consider appropriate and beneficial.

### 2. External Audit

- Review the competency and performance of the external auditors.
- Consider and recommend the appointment, re-appointment, resignation, dismissal and remuneration of external auditors.
- To discuss and review with the external auditors any proposal from them to resign as auditors.
- To recommend to the Board on the appointment and the annual re-appointment of the external auditors and their audit fees, after taking into consideration the independence and objectivity of the external auditors and the cost effectiveness of their audit.
- To monitor the engagement of the external auditors in performing such audit services, considering the types of services rendered and its related fees, such that the position as auditor is not deemed to be compromised.

# Audit Committee Report

## DUTIES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE (CONT'D)

### 2. External Audit (Cont'd)

- Review the external auditors' audit plan before the audit commences and discusses the nature, scope and approach of the audit.
- To review with the external auditors, the nature and scope of their audit plan, their evaluation of the system of internal controls and their management letter and discuss any matter that the external auditors may wish to raise in the absence of management, where necessary.
- Review and confirm the independence and objectivity of the external auditors, taking into consideration the local professional and regulatory requirements.
- To consider whether the independent auditors provision of non-audit services is compatible with maintaining the independent auditors' independence.
- To review the co-ordination of the audit approaches where more than one audit firm of external auditors is involved and the co-ordination between the external and internal auditors.
- Identify any matters in respect of which it considers that action or improvement is needed and reviewing recommendations as to the steps to be taken.

### 3. Internal Audit

- To review the adequacy of the scope, functions, competency and resources of the internal audit function.
- To approve the internal audit plan and review the results of the internal audit plan or investigation undertaken and whether or not appropriate action taken by management on the recommendations of the internal audit.
- Be the final authority to review and approve the Annual Audit Plan and all major changes to the plan.
- The Head of Internal Audit shall report directly to the Committee and shall have direct access to the Chairman of the Committee.
- To appraise the performance of the Head of Internal Audit and to review the appraisals of senior staff members of the internal audit function.

### 4. Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the result of management's investigation and follow-up (including disciplinary action) of any major instances of non-compliance.
- Review procedures established to address allegations raised by whistleblowers, to ensure proportionate and independent investigation is conducted and follow-up action is taken and highlighted to the Committee.
- Review the findings of any examination by regulatory agencies and any auditor's observations.
- Review the process for communicating the Code of Conduct to the staff, and for monitoring compliance therewith.
- Review the effectiveness of measures put in place to combat corruption in the Company.



# Audit Committee Report

## PERFORMANCE OF THE AUDIT COMMITTEE

The appointment of Chairman and members of the Audit Committee during the period under review had been made in accordance to the Listing Requirements.

The Committee members were informed at the beginning of the year of the number of meetings scheduled during the year.

The Audit Committee members were given agenda and relevant papers for the meetings at least five (5) days prior commencement of scheduled meetings.

Pursuant to the Listing Requirements, the Board had reviewed the terms of office and assessed the performance of each member of the Audit Committee appointed for the year based on the recommendation of the Nomination Committee.

The Board is satisfied that the Audit Committee has discharged its duties in accordance with the Terms of Reference.

## SUMMARY OF WORK OF THE AUDIT COMMITTEE

During the year under review, the Audit Committee has undertaken the following activities:-

- Reviewed the external auditors' audit plan, scope and areas of audits, evaluate the system of internal controls, audit findings, management's responses to the management letter given by the external auditor and the audit report.
- Reviewed the suitability of the external auditors and recommended to the Board for appointment of auditors and the audit fee thereof.
- Reviewed and recommended to the Board for approval on the new clauses in the updated letters of engagement from the external auditors for the Group.
- Reviewed the Company's Financial and General Performance Report in order to ensure that the Board had been provided with sufficient information for announcements to Bursa Malaysia Securities Berhad.
- Reviewed the annual financial statements and quarterly results of the Group for the Board's approval.
- Reviewed the policy on recurrent related party transaction (RRPT) of a revenue or trading nature and recommended to the Board for approval, adoption and inclusion in the circular to shareholders in relation to the proposed renewal of shareholders' mandate for RRPT pursuant to the Bursa Malaysia Listing Requirements.
- Reviewed the risk management of the Company, management objectives and policies of the Group and recommended to the Board for approval and adoption.
- Reviewed the results of the Group's internal audit reports and the adequacy of remedial actions taken by the management as recommended in the reports.
- Reviewed and approved the 2019 Internal Audit Plan.
- Reviewed follow-up actions by management on any weaknesses in internal accounting procedures and controls as highlighted by the external and internal auditors.
- Reviewed the revision of The Accounting Policies on Fixed Asset Recognition and Authority Limit to Purchase the Fixed Assets.
- Reviewed the Solvency Statement as required by the Companies Act, 2016.
- Reviewed proposed amendments to its Terms of Reference prior to approval of the Board of Directors.
- Reviewed and overseen the Draft Audit Committee Report for disclosure in the Group's Annual Report.

# Audit Committee Report

## SUMMARY OF WORK OF THE INTERNAL AUDIT FUNCTIONS

The Audit Committee is assisted by the in-house Internal Audit Department in maintaining a sound system of internal controls.

Currently Internal Audit Department is headed by Encik Norfadli Bin Mahrom. The biography of Head of Internal Audit is set out in the Management's Profile section.

During the year under review, Internal Audit Department was supported by five (5) executives (including the Head of Internal Audit) and a non-executive clerk. All staffs are graduates with bachelor degrees or diplomas on various fields including accountancy, administration and plantation.

The Internal Audit Department undertakes internal audit functions based on the audit plan that is reviewed and approved by the Audit Committee. The audit plan covers areas such as the adequacy of financial and operational controls, risk management, compliance with laws and regulations, policies and procedures and management efficiency, amongst others.

Internal Audit had carried out the scheduled audit for all estates and also conducted special reviews on payment of workers' incentive and allowance based on the requests made by the management. All significant observations were highlighted during the audit exit meeting and follow-up on the observations were communicated and highlighted to the auditees, management and Audit Committee.

Internal Audit and the management had reviewed all Recurrent Related Party Transactions (RRPTs) entered in 2019 in order to ensure that the transactions are fair and reasonable terms and not detrimental to the interest of the minority shareholders.

The compliance audits on International Sustainability & Carbon Certification ("ISCC") and Malaysian Sustainable Palm Oil ("MSPO") were reviewed by the Internal Audit Department in 2019 which covered the central office and eleven (11) estates.

The Internal Audit Department had adequate resources to carry out its duties during the year 2019. The total cost incurred in managing the internal audit function in respect of the financial year was RM529,220 (2018: RM437,651).

This report is made in accordance with a resolution of the Board of Directors dated 29 April 2020.