

# FWD Takaful Berhad

## Audit Committee Terms of Reference

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### 1.0 CONSTITUTION

The Audit Committee was established by resolution of the Board on 11 July 2006.

### 2.0 MEMBERSHIP

2.1 The Audit Committee shall comprise of not less than three (3) independent non-executive directors who have the skills, knowledge and expertise relevant to the responsibilities of the Audit Committee. The directors shall have appropriate professional qualifications or accounting or related financial management expertise.

2.2 The Board may from time to time appoint to the Committee additional members it has determined to be independent.

2.3 The Committee may invite any director, executive, external auditor or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective.

2.4 In normal circumstances, a former partner of the Company's existing auditing firm shall not be appointed as a member of the Audit Committee for a period of two years commencing on the date of his or her ceasing:

- (i) to be a partner of the firm; or
- (ii) to have any financial interest in the firm, whichever is later.

2.5 The chairman of the Audit Committee shall be appointed by the Board and, must be an independent non-executive Director.

### 3.0 MEETINGS AND QUORUM

3.1 Meetings of the Audit Committee shall be held not less than four times a year. The quorum for meetings of the Audit Committee must be two (2) independent Directors or at least half of the Audit Committee members present.

3.2 The Audit Committee shall also at least once each year meet separately with the external auditor, the Head of Internal Audit without other Directors and management being present.

3.3 The CFO, the Head of Risk, the Head of Internal Audit and the external auditor of the Company shall normally be invited to meetings of the Audit Committee.

3.4 An agenda and accompanying meeting papers should be sent in full to all members in a timely manner and at least one calendar week before the intended date of a meeting of the Audit Committee (or such other period as agreed by its members).

#### 4.0 AUTHORITY

4.1 The Committee shall be accountable to the Board and shall have non-executive responsibility for oversight of and advice to the Board on matters relating to financial reporting.

4.2 The Audit Committee is authorised by the Board to investigate any activity within these Terms, have full and unrestricted access to information and co-operation by management.

4.3 The Audit Committee and each of its members shall have separate and independent access to the Management as and when they consider necessary. Management is obliged to supply the Audit Committee with adequate, complete and reliable information in a timely manner, in order to enable it to make informed decisions.

4.4 The Audit Committee is authorised by the Board to obtain outside independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. The Audit Committee shall be provided with sufficient resources to discharge its duties. The Audit Committee shall be responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any external party who advises the Audit Committee.

4.5 The Audit Committee may delegate to the CEO and/or any other person its authority under these terms from time to time as it considers appropriate.

4.6 Upon the recommendation from the Audit Committee, the chairman of the Audit Committee is authorised to approve the Head of Internal Audit's remuneration and terms of engagement.

#### 5.0 DUTIES

5.1 The duties of the Audit Committee shall include without limitation the generality of the Committee's objective, and have the following non-executive responsibilities, powers, authorities and discretions:

##### 5.1.1 Financial Reporting

- (a) monitoring integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance or supplementary regulatory information and reports, reviewing significant financial reporting judgments

contained in them. In this regard, in reviewing the Company's financial statement, and reports before submission to the Board, the Audit Committee shall focus particularly on:

- (i) any material changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) material off-balance sheet items;
  - (iv) significant adjustments resulting from audit;
  - (v) the going concern assumptions and any qualifications;
  - (vi) compliance with accounting standards;
  - (vii) reserve adequacy and reserving processes;
  - (viii) compliance with any applicable legal and regulatory requirements in relation to financial reporting;
  - (ix) regulatory guidance on disclosure of areas of special interest;
  - (x) comment letters from appropriate regulatory authorities; and
  - (xi) matters drawn to the attention of the Committee by the Company's external auditor.
- (b) if required, taking the following actions in respect of (a) above:
- (i) liaising with the Board, members of senior management, the external auditor and Head of Internal Audit; and
  - (ii) considering any significant or unusual items that are, or may need to be, reflected in such accounts, financial statements and reports and giving due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors.
- (c) Reviewing the Company's financial and accounting policies and practices and support the Board in ensuring that there is a reliable and transparent financial reporting process within the Company.
- (d) Receive an annual report, and other reports from time to time as may be required by applicable laws and regulations, from the chief executive officer and financial controller to the effect that such persons have disclosed to the Committee and to the external auditor all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which could adversely affect the Company's ability to record and report financial data and any fraud, whether material or not, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.
- (e) Provide to the Board such assurances as it may reasonably require regarding compliance

by the Company, its subsidiaries and those of its associates for which it provides management services with all supervisory and other regulations to which they are subject.

- (f) Provide to the Board such additional assurance as it may reasonably require regarding the reliability of financial information submitted to it.

### 5.1.2 Internal Audit

- (a) Monitoring and reviewing the effectiveness of the Internal Audit function, consider the major findings of internal investigations and management's response, and ensure that the internal audit function is adequately resourced, has appropriate standing within the Company and is free from constraint by management or other restrictions.
- (b) In overseeing the effectiveness of the internal audit function, the Committee must include the following:
  - (i) reviewing and approving the audit scope, procedures and frequency;
  - (ii) reviewing key audit reports and ensuring that senior management is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the internal audit and other control functions;
  - (iii) noting significant disagreements between the Head of Internal Audit and the rest of the senior management team, irrespective of whether these have been resolved, in order to identify any impact the disagreements may have on the audit process or findings;
  - (iv) establishing a mechanism to assess the performance and effectiveness of the internal audit function; and
  - (v) reviewing and approving FWD Takaful internal audit charter and three year audit workplan.
- (c) ensuring appropriate procedures are established and adequate resources are provided for FWD Takaful internal audit, and monitoring the Internal Audit function to ensure it is carried out effectively;
- (d) discussing the results of work and reported findings of the Internal Audit;
- (e) making recommendations to the Board on the appointment and removal of FWD Takaful Head of Internal Audit and to consider any issues arising from the foregoing;
- (f) making recommendations to the chairman of the Audit Committee on the FWD Takaful Head of Internal Audit's remuneration and terms of engagement; and
- (g) satisfy itself that there is appropriate co-ordination between the internal and external auditors.

### 5.1.3 External Audit

- (a) making recommendations to the Board on the selection, appointment, reappointment, resignation and removal of the external auditor, its remuneration and terms of engagement, and to consider any issues arising from the foregoing;
- (b) assessing and monitoring the external auditor's qualifications, independence and objectivity, its performance and the effectiveness of the audit process in accordance with applicable auditing standards; taking into consideration relevant professional and regulatory requirements and reports from the external auditors on their own policies and procedures regarding independence and quality control;
- (c) overseeing the Company's relationship with external auditor;
- (d) approving the nature and scope of the external audit and the external auditor's reporting obligations, and ensure co-ordination where more than one audit firm is involved;
- (e) Discussing with the external auditor their general approach, nature and scope of their audit and reporting obligations before the audit commences including, in particular, the nature of any significant unresolved accounting and auditing problems and reservations arising from their interim reviews and final audits, major judgmental areas (including all critical accounting policies and practices used by the Company and changes thereto), all alternative accounting treatments that have been discussed with management together with the potential ramifications of using those alternatives, the nature of any significant adjustments, the going concern assumption, compliance with accounting standards and legal requirements, reclassifications or additional disclosures proposed by the external auditor which are significant or which may in the future become material, the nature and impact of any material changes in accounting policies and practices, any written communications provided by the external auditor to management and any other matters the external auditor may wish to discuss (in the absence of management where necessary);
- (f) Approving and overseeing the engagement of an external auditor to supply non-audit services and reporting to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; For this purpose "external auditor" shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally; and
- (g) Reviewing the external auditor's annual report on the progress of the audit, its management letter, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and, in each case, responses from management. Any material issues arising which relate to the management of risk or internal controls (other than internal financial controls) shall be referred to the Risk Committee as appropriate.

#### 5.1.4 Systems and Procedures

- (a) Reviewing and evaluating the Company's standards, policies and procedures for accounting, financial reporting and financial planning and any major change to them;
- (b) Reviewing and evaluating the adequacy and efficacy of FWD Takaful budgetary and financial control, internal control and risk management systems;
- (c) Ensuring that an effective internal control system is established and maintained, and that the system is run with adequate resources, including sufficient staff for accounting and financial reporting with appropriate qualifications and experience, and their training programmes and budget;
- (d) Reviewing and discussing with management the effectiveness of the Company's internal control systems relating to financial reporting and, where appropriate, to endorse the content of the statement relating to internal controls over financial reporting in the annual report for submission to the Board including Shariah compliance;
- (e) Considering any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and Management's response;
- (f) Ensuring co-ordination between the internal and external auditors, ensuring that the internal audit function is adequately resourced and has appropriate standing within FWD Takaful, and reviewing and monitoring the effectiveness of the internal audit function;
- (g) Reviewing the external auditor's management letter, any material queries raised by the auditor to Management in respect of the accounting records, financial accounts or systems of control and Management's response;
- (h) Ensuring that the issues raised in the external auditor's management letter are responded in a timely manner;
- (i) Coordinating with the chairman of the Risk Management and Actuarial Committee of the Company to help ensure that both the Risk Management and Actuarial Committee and the Audit Committee have received all information necessary to permit them to fulfil their duties and responsibilities with respect to risk assessment and risk management;
- (j) Ensuring there are appropriate whistle-blowing procedures for the company's employees to report, in confidence, any possible improprieties in financial reporting, internal control or other matters, and ensuring proper arrangements are in place for fair and independent investigation of and follow-up actions for such matters;
- (k) Ensuring that major regulatory developments and potential impacts upon the company are identified and managed appropriately by management;
- (l) Reporting to the Board on the matters set out in these Terms;
- (m) Considering any other topics, as defined by the Board;
- (n) Receiving from the Regulatory Compliance function reports on the treatment of substantiated complaints regarding accounting, internal accounting controls or auditing

matters received through the whistle-blowing procedures adopted by the company from time to time (or such other system as the Audit Committee may approve) for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

- (o) Report any significant actual, suspected or alleged fraud (involving misconduct or unethical behaviour related to financial reporting) or misrepresentation of assets, which has not been included in a report submitted by management to the Committee, to any committee established by the immediate holding company;
- (p) Review and update the Board on any related party transactions;
- (q) Monitor compliance with the Board's conflicts of interest policy;
- (r) Review the accuracy and adequacy of the corporate governance disclosures and interim financial reports in relation to the preparation of financial statements; and
- (s) Review third-party opinions on the design and effectiveness of the financial institution's internal control framework.

## 6.0 REPORTING PROCEDURES

- 6.1 Full minutes of meetings of the Audit Committee shall be kept by a duly appointed secretary of the meeting (who should normally be the Company Secretary), and such minutes shall be made available for inspection at any reasonable time on reasonable notice by any Director.
- 6.2 Minutes of meetings of the Audit Committee shall record in sufficient detail the matters considered by the Audit Committee and decisions reached, including any concerns raised by Directors, members or dissenting views expressed. Draft and final versions of minutes of such meetings should be sent to all members of the Audit Committee for their comment and records respectively, in both cases within a reasonable time after such meetings.
- 6.3 Without prejudice to the generality of the duties of the Audit Committee set out in these Terms, the Audit Committee shall report back to the Board and keep the Board fully informed of its decisions and recommendations, unless there are legal or regulatory restrictions on its ability to do so.
- 6.4 The Committee shall review its terms of reference and its relevancy once in 2 years or when need arises and recommend to the Board any changes.
- 6.5 Any resolution in writing, signed or assented to by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly called and constituted and may consist of several documents in the like form each signed by one or more the members.

