



**TEXCHEM RESOURCES BHD.**  
**(Company Registration No.: 197301002868 [16318-K])**

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

The Board of Directors (“**Board**”) and its Audit Committee (the “**AC**”) of Texchem Resources Bhd (“**TRB**” 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 Texchem Group. On an annual basis, the AC 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 Texchem Group’s external auditors by the AC 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 AC that it is independent and outline the procedures it has in place to maintain its independence. The external auditors must be independent from Texchem Group and be seen to be independent from Texchem Group.

The independence of the external auditors is integral to the role of auditors and the AC will give due consideration to this requirement when selecting a preferred external auditor 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 Texchem Group’s management. The external auditors will be required to disclose to the AC all issues of material significance and all matters of disagreement with Texchem Group’s management, whether resolved or unresolved, and to assist the AC to review such matters.

#### **1.4 Non-audit work**

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

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#### **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 AC 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. Furthermore, the assessment should also consider information presented in the Annual Transparency Report of the audit firm.

#### **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 or non-assurance services**

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

- (a) the auditors may provide audit and non-audit or non-assurance related services that, while outside the scope of the statutory audit, are consistent with the role of external 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 or non-assurance 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 Texchem Group 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 or non-assurance 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 or non-assurance 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 Group Chief Financial Officer ("GCFO") of the non-audit or non-assurance services and the estimated fees to be incurred. The GCFO will obtain approval from the President & Group Chief Executive Officer ("GCEO") and/or Board.

The subsidiary or entity can only proceed with the non-audit or non-assurance service work when approval obtained from the GCEO and/or Board.

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

<u>Approval thresholds for non-audit or non-assurance work</u>	<u>Approver</u>
Up to RM 500,000 per engagement	GCEO
Above RM 500,000 per engagement	Board

**3. Pre-approval for External Auditor to tender for non-assurance services**

With effective from 1 January 2023, in accordance with the requirement of paragraph R600.21 of the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants, the external auditor is required to communicate with those charged with governance of a public interest entity before the External auditor or its network firm provides a non-assurance service to:

- (a) the public interest entity;
- (b) any entity that controls, directly or indirectly, that public interest entity; or
- (c) any entity that is controlled directly or indirectly by that public interest entity,

and inform those charged with governance of the public interest entity that the firm has determined that the provision of the service:

- (i) is not prohibited; and
- (ii) will not create a threat to the firm's independence as auditor of the public interest entity or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level.

Non-assurance services include any services which are not performed in accordance with:

- International Standards on Auditing (ISA);
- International Standard on Review Engagements (ISRE);
- International Standard on Assurance Engagements (ISAE).

The Board and the AC do not require prior communication from External auditors for the purpose of tendering for any non-assurance services provided that the following criteria are met:

- (a) the services are not specifically prohibited by the by-laws of the MIA or promulgations of the International Federation of Accountants for which no safeguard can eliminate or reduce the threat on the external auditors' independence; and
- (b) the services do not involve the External auditors or its network firms acting in management role.

**4. Monitoring and reporting**

The GCFO shall report to the AC on an annual basis on any significant non-audit or non-assurance services and its related fees on non-audit or non-assurance rendered to Texchem Group or its subsidiaries by the external auditors.

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**5. Rotation of external audit engagement partner**

The audit engagement partner responsible for the external audit of Texchem Group is subject to rotation at least every 7 years with cooling-off period of 5 years in accordance with By-Laws of the MIA.

**6. Review of audit arrangements**

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

**7. Review of these Policies and Procedures**

The Board has the authority to amend these Policies and Procedures. The AC will assess, review and update the above Policies and Procedures periodically or as and when there are changes to the regulatory requirements. Additionally, the AC will report on its review and recommend any desirable changes to the Board.

Revised and approved on 19<sup>th</sup> May 2023.