



SERN KOU RESOURCES BERHAD

[Registration No. 200001016496 (519103-X)]

EXTERNAL AUDITORS' SELECTION POLICY

External Auditors' Selection Policy

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Contents

1.	INTRODUCTION	1
2.	SELECTION AND APPOINTMENT	1
3.	INDEPENDENCE	1
4.	NON-AUDIT SERVICE	1 – 2
5.	ROTATION OF AUDIT PARTNER	2
6.	ANNUAL REPORTING	2
7.	ANNUAL ASSESSMENT	3
8.	REVIEW OF THE POLICY	3

External Auditors' Selection Policy

SERN KOU RESOURCES BERHAD [Registration No. 200001016496 (519103-X)]

1. INTRODUCTION

The Board of Directors ("the Board") and the Audit Committee ("the Committee") are committed in ensuring the performance, suitability and independence of external auditors.

The objective of this External Auditors' Selection Policy ("the Policy") is to outline the guidelines and procedures to be undertaken by the Committee for the selection and appointment, removal, impartiality and independent of external auditors in order to safeguard the quality and reliability of the Audited Financial Statement.

Management shall obtain assurance from the external auditors confirming that there are and have been independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.

2. SELECTION AND APPOINTMENT

The Board has delegated to the Committee the responsibility to review the appointment, resignation, remuneration and removal of external auditors and recommend to the Board for decision making.

Pursuant to Section 271 of the Companies Act 2016, the Company shall at each annual general meeting appoint or re-appoint the external auditors of the Company, and the external auditors so appointed shall, hold office until the conclusion of the next annual general meeting of the Company.

Should the Committee determine a need for a change of external auditors, the Committee will follow the following procedures for selection and appointment of new external auditors:-

- (a) the Committee to identify the audit firms who meet the criteria for appointment and to request for their proposals of engagement for consideration;
- (b) the Committee will assess the proposals received and shortlist the suitable audit firms;
- (c) the Committee will meet and/or interview the shortlisted candidates;
- (d) the Committee may delegate or seek the assistance of the Chief Financial Officer ("CFO") to perform items (a) to (c) above;
- (e) the Committee will recommend the appropriate audit firm to the Board for appointment as external auditors; and
- (f) the Board shall approve the appointment to fill the casual vacancy in the office of the auditor, alternatively to endorse the recommendation and seek shareholders' approval for the appointment of the new external auditors and/or resignation/removal of the existing external auditors at a general meeting, where necessary.

3. INDEPENDENCE

The external auditors are precluded from providing any services that may impair their independence or conflict with their role as external auditors. The Committee shall obtain a written 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.

4 NON-AUDIT SERVICE

The external auditors can be engaged to perform non-audit services that are not, and are not perceived to be, in conflict with the role of the external auditors. This excludes audit related work in compliance with statutory requirements.

External Auditors' Selection Policy

SERN KOU RESOURCES BERHAD [Registration No. 200001016496 (519103-X)]

The prohibition of non-audit services is based on three (3) basic principles as follows:

- (a) external auditors cannot function in the role of Management;
- (b) external auditors cannot audit their own work; and
- (c) external auditors cannot serve in an advocacy role of the Company and its subsidiaries ("the Group").

The external auditors shall observe and comply with the requirements the Malaysian Institute of Accountants ("MIA") in relation to the provision of non-audit services, which include the following:

- (i) accounting and book keeping services;
- (ii) valuation services;
- (iii) taxation services;
- (iv) internal audit services;
- (v) IT systems services;
- (vi) litigation support services;
- (vii) recruitment services; and
- (viii) corporate finance services.

All engagements of the external auditors to provide non-audit services are subject to the approval/endorsement of the Committee. Management shall obtain confirmation from the external auditors that the independence of the external auditors will not be impaired by the provision of non-audit services.

5. ROTATION OF AUDIT PARTNER

The audit partner (lead engagement partner, signing Partner, key audit partner and engagement quality control reviewer) responsible for the external audit of the Group are subject to rotation at last every seven (7) financial years in accordance with requirements of the MIA.

6. ANNUAL REPORTING

The External Auditors shall

- a. issue an annual audit plan for review and discussion with the Committee,
- b. the External Auditors shall also provide a management letter to the Committee upon completion of the annual audit, and
- c. at the conclusion of the audit review, shall discuss findings of significant audit weaknesses, key audit matters and audit recommendations with the Committee and Senior Management.

External Auditors' Selection Policy

SERN KOU RESOURCES BERHAD [Registration No. 200001016496 (519103-X)]

7. ANNUAL ASSESSMENT

The Committee shall carry out annual assessment on the performance, suitability and independence of the external auditors based on the following four (4) key areas:

- (i) quality of service;
- (ii) sufficiency of resources;
- (iii) communication and interaction with management;
- (iv) independence, objectivity and professionalism (The External Auditors are to provide confirmation on independence and their compliance with MIA's Code of Ethics and confirmation of their valid registration with Audit Oversight Board).

With the assistance from the CFO, the Committee may perform the annual assessment of the external auditors.

The external auditors' performance and independence evaluation form as attached. (Refer to Appendix I)

8. REVIEW OF THE POLICY

The Committee will review the Policy periodically to ensure that it continues to remain relevant and appropriate.

The External Auditors' Selection Policy has been adopted by the Board on 23 May 2022.

Review Period:

Name of Appraiser: _____

**EXTERNAL AUDITOR PERFORMANCE AND INDEPENDENCE
 EVALUATION**

The evaluation form provides ratings from one (1) to four (4), or 'yes' and 'no', with the indicators illustrated below, to be responded in relation to the nature of the questions:

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Yes, most of the time	Yes, usually	Yes, but seldom	No
or			
4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Above average	Average	Below average	Poor
or			
Yes <input type="checkbox"/>			No <input type="checkbox"/>
Yes			No

Where any criterion is deemed not applicable, it should be indicated as 'Not Applicable' in the comment box.

Name of External Auditor: _____

Section A: Calibre of External Audit Firm

1. Are there recent or current litigation cases against the firm?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

2. Does the external audit firm have the size, resources and geographical coverage required to audit the company?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

SERN KOU RESOURCES BERHAD
[REGISTRATION NO. 200001016496 (519103-X)]

EXTERNAL AUDITOR PERFORMANCE AND INDEPENDENCE EVALUATION

Section B: Quality Processes/ Performance

3. How are the quality control processes maintained in the external audit firm? Factors to be considered include the level and nature of review procedures, the approach to audit judgments and issues, independent quality control reviews and the external audit firm's approach to risk.

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

4. How have key risks, including fraud risk and financial misstatement risk, been discussed and factored into the audit plan?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

5. How is the external audit firm's process for internal review of accounting judgments, including an understanding of the key issues?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

6. How are relevant specialists/ experts being employed by the external audit firm and how are these linked to the audit process?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

7. Are the reporting processes for subsidiary audit teams effective?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

SERN KOU RESOURCES BERHAD
[REGISTRATION NO. 200001016496 (519103-X)]

EXTERNAL AUDITOR PERFORMANCE AND INDEPENDENCE EVALUATION

8. How is the external audit firm's approach to seeking and assessing management representations?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

9. In cases where there are any differences in views between management and the external auditor, does the external auditor communicate their views clearly and accurately from an accounting perspective and how does management's view differs from it?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

10. Does the audit committee agree with the bases and extent of reliance external auditors place on management and internal audit testing, if any? (Comment as 'Not Applicable' if none)

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

11. Comment on the external auditor's working relationship with internal audit.

Comment:

SERN KOU RESOURCES BERHAD
[REGISTRATION NO. 200001016496 (519103-X)]

EXTERNAL AUDITOR PERFORMANCE AND INDEPENDENCE EVALUATION

12. Did the auditors meet the performance targets, i.e. audit scope, audit plan, timing, etc.

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

13. Does the external audit function include detection and investigation of fraud? If it does not, please comment on its role in relation to investigation of fraud?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

Section C: Audit Team

14. Rate whether the audit engagement partner and individuals assigned to the external audit team. Do they have the requisite skills and expertise, including industry knowledge, to effectively audit this company and meet its needs and requirements?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

15. Is the lead engagement partner able to provide a clear and understandable explanation on auditing and accounting issues faced by the company?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

16. Is the audit engagement partner's/ other senior personnel's involvement in the audit process sufficient?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

SERN KOU RESOURCES BERHAD
[REGISTRATION NO. 200001016496 (519103-X)]

EXTERNAL AUDITOR PERFORMANCE AND INDEPENDENCE EVALUATION

Section D: Independence and Objectivity

17. Does the external audit firm communicate to the company on any matters which might reasonably be perceived to affect the independence of the firm and/or of individuals assigned to the external audit team?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

18. Does the external audit firm have adequate key member succession plans in place, which meet the relevant audit partner rotation requirements and facilitate the maintenance of objectivity?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

19. Is the audit committee of the opinion that the external audit function is independent and objective in fact and appearance?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

20. Prior to approval by the audit committee on non-audit services to be rendered by the external audit firm, does the lead engagement partner explain and discuss safeguards in place to protect against impairment to independence and objectivity of the external audit firm?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

SERN KOU RESOURCES BERHAD
[REGISTRATION NO. 200001016496 (519103-X)]

EXTERNAL AUDITOR PERFORMANCE AND INDEPENDENCE EVALUATION

21. Does the external auditor communicate to the audit committee about new and applicable accounting practices and auditing standards and its impact on the company's financial statement?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

Section E: Audit Scope and Planning

22. Does the external audit firm, with the audit engagement partner present, discuss and agree on audit scope and plan with the audit committee?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

23. Is the external audit scope and plan adequate to address company/ industry-specific areas of accounting risks, audit risks and financial reporting risks facing by the company?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

24. In planning the audit, how is geographical coverage, allocated resources, level of audit testing and nature of the audit reports issued at each location?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

SERN KOU RESOURCES BERHAD
[REGISTRATION NO. 200001016496 (519103-X)]

EXTERNAL AUDITOR PERFORMANCE AND INDEPENDENCE EVALUATION

25. Is specialist input to the audit in areas such as taxation, pensions and regulation at an appropriate level?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

26. Are all key operations covered by the external audit?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

27. Did the auditors maintain or update the audit plan to respond to changing risks and circumstances, in a manner agreeable and determined appropriate by the audit committee?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

Section F: Audit Fees

28. How does the audit fee compare with other similarly sized companies in this industry (a fee that is either too high or too low can be of concern)?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

29. Rate how the differences between actual and estimated fees are handled?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

SERN KOU RESOURCES BERHAD
[REGISTRATION NO. 200001016496 (519103-X)]

EXTERNAL AUDITOR PERFORMANCE AND INDEPENDENCE EVALUATION

30. Is an assessment conducted on the amounts and relationship of audit and non-audit fees and services?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

31. Does the audit committee consider the fee for the external audit practical and sufficient for the scope, size, complexity and risks of the company?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

Section G: Audit Communications

32. Does the external audit firm meet freely, regularly, and on a confidential basis with the audit committee, including being able to communicate to the audit committee if not provided with sufficient cooperation during the audit?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

33. Does the external audit engagement partner maintain professional and open dialogues with the audit committee and communicate findings and discussions in a frank and complete manner (including matters on management's reporting process, internal control over financial reporting, etc.)?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

SERN KOU RESOURCES BERHAD
[REGISTRATION NO. 200001016496 (519103-X)]

EXTERNAL AUDITOR PERFORMANCE AND INDEPENDENCE EVALUATION

34. Does the external audit firm advise the audit committee about significant issues and new developments regarding risk management, corporate governance, financial accounting and related risks and controls on a timely basis?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

35. Does the external auditor discuss the critical accounting policies and whether the accounting treatment is conservative or aggressive?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

36. Does the external audit firm discuss with the audit committee the quality of the company's financial reporting, including the reasonableness of accounting estimates and judgments?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

37. Does the external audit firm resolve accounting issues in a timely manner?

4 <input type="checkbox"/>	3 <input type="checkbox"/>	2 <input type="checkbox"/>	1 <input type="checkbox"/>
Comment:			

38. Does the external audit firm seek feedback on the quality and effectiveness of the services they are providing?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

SERN KOU RESOURCES BERHAD
[REGISTRATION NO. 200001016496 (519103-X)]

EXTERNAL AUDITOR PERFORMANCE AND INDEPENDENCE EVALUATION

Evaluation carried out by:

Checked and complied by:-

Name :

Designation :

Name :

Designation :