



Policy on External Auditor

Duopharma Biotech Berhad

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1. Introduction

The Board of Directors (the “Board”) including the Audit and Integrity Committee of Duopharma Biotech Berhad (“Duopharma” or the “Company”) is committed in ensuring the suitability, objectivity and independence as well as the sound performance of the external auditor.

The Company, through the Audit and Integrity Committee has established a transparent and formal relationship with the external auditor who is ultimately accountable to the Company’s shareholders. The Company’s external auditor plays an essential role in providing credibility to the financial statements by performing the requisite audit procedures so as to have a reasonable basis for the opinion that they render on the financial statements.

The objective of the Policy on External Auditor (“this Policy”) is to outline guidelines and procedures for the Audit and Integrity Committee to assess and monitor the external auditor in order to preserve the integrity and credibility of the external audit process.

1.1 Scope and application

This Policy should be read together with the relevant enumerations encapsulated in the following legislations:

- (a) Companies Act 2016;
- (b) Capital Markets and Services Act 2007; and
- (c) Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Listing Requirements”).

Where there is a conflict between the contents of this Policy and the aforementioned legislations, the relevant enumerations contained in the said legislations shall prevail.

This Policy is also developed in alignment with the Malaysian Code on Corporate Governance (“MCCG”), and the By-Laws (on Professional Ethics, Conduct and Practice) by the Malaysian Institute of Accountants (“MIA”).

1.2 Definitions

These terms are ascribed with the following definitions in relation to this Policy:

External audit – services in relation to the statutory audit of the financial statements.

Key audit partner – the engagement partner, the individual responsible for the engagement of quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the external auditor will express an opinion.

Independence in appearance – the avoidance of facts and circumstances where a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude that the individual’s integrity or objectivity has been compromised.

Independence of mind – refers to the state of mind that enables individuals to exercise professional judgment without undue influence so that they are allowed to act with integrity and to be objective.

Non-audit services - services that are not related to the performance of the statutory audit.

Objectivity – a state of mind that imposes upon an individual the obligation to be impartial and free from conflicts of interest.

2. Appointment and removal of external auditor

The Audit and Integrity Committee has been entrusted with the responsibility of recommending the appointment or re-appointment of the external auditor for the concurrence of the Board prior to being tabled as a resolution for the approval of shareholders at the Annual General Meeting (“AGM”).

Shareholders shall at each AGM (by way of an ordinary resolution) appoint the external auditor and the external auditor appointed shall hold office until the conclusion of next AGM of the Company [Section 271(3) and (4) of Companies Act 2016]. Shareholders (by way of an ordinary resolution and a special notice) are also entitled to remove the external auditor at any time [Section 276(1) of Companies Act 2016].

In the event of a resignation of the external auditor, the Audit and Integrity Committee alongside the Board shall review the letter of resignation from the external auditors and send a copy of the resignation notice and representations made by the external auditor to the Registrar of Companies and Bursa Malaysia Securities Berhad (“the Exchange”) within seven days from the date of resignation (paragraphs 15.12 and 15.22 of Listing Requirements; and Section 282 of Companies Act 2016).

2.1 Assessment of external auditor

The Audit and Integrity Committee’s recommendation on the appointment of external auditor to the Board shall be anchored on a defined set of criteria. In addition to the aspects of independence and objectivity, the Audit and Integrity Committee when appointing an external auditor, shall amongst others consider:

- a) the adequacy of the experience and resources of the external audit firm;
- b) the persons assigned to the external audit engagement;
- c) the external audit firm’s audit engagements;
- d) the size and complexity of the subject matter being audited; and
- e) the number and experience of supervisory and professional staff assigned to the particular external audit engagement.

(paragraph 15.21 of Listing Requirements)

Annually, the Audit and Integrity Committee shall review the re-appointment of the external auditor and ascertain whether there is reason (supported by grounds) to believe that the external auditor is not suitable for re-appointment [paragraph 15.12(1)(f) of Listing Requirements]. If the external auditor is deemed to be not suitable, the Audit and Integrity Committee should source for alternative external audit firms and make recommendations to the Board. In conducting this assessment, the Audit and Integrity Committee shall also gather feedback from the Chief Financial Officer and other relevant Senior Management personnel.

In assessing the quality of services rendered by the external auditor during the year under review, the Audit and Integrity Committee may be guided by the following non-exhaustive indicators:

- adequacy of audit scope;
- ability of the external audit firm to meet audit deadlines;
- timeliness in escalating audit issues to the audit committee;
- allocation of resources to significant audit risk areas; and
- effectiveness of the external audit firm’s recommendations in addressing weaknesses observed during previous audits, particularly on internal controls relevant to financial reporting process.

The evaluation form for assessing the external auditor is outlined in Appendix 1 of this Policy.

2.2 Remuneration of external auditor

The Board shall be authorised by shareholders at the AGM to fix the remuneration of the external auditor [Section 274(1) of Companies Act 2016]. Remuneration in this context includes sums paid in respect of expenses and payment otherwise than cash [Section 274(2) of Companies Act 2016]. In determining the remuneration of the external auditor, the Board shall consult the Audit and Integrity Committee.

The Audit and Integrity Committee shall take into consideration the industry benchmarks when assessing the remuneration that should be accorded to the external auditor. The Audit and Integrity Committee shall ensure that the remuneration awarded to the external auditor is commensurate with the scope of the audit, considering the required resources, skills and knowledge needed to complete the external audit engagement, and the responsibilities of the external auditor.

Duopharma and its subsidiaries (collectively referred to as the “Group”) shall not enter into any contingent fee arrangement relating to the outcome of a transaction or the result of the services performed with the external auditor [Provisions 290.225 of By-Laws (on Professional Ethics, Conduct and Practice) by the MIA].

2.3 Independence of external auditor

The Audit and Integrity Committee shall review the independence of the external auditor annually, and the Audit and Integrity Committee shall consider whether the external auditor is independent both in mind and in appearance.

In ensuring the independence of external auditor, the Audit and Integrity Committee shall obtain written assurance from the external auditor, confirming that the external auditor is, and has been, independent throughout the conduct of the audit engagement¹ with the Company in accordance with the independence criteria set out by MIA. [Guidance to Practice 8.3 of MCCG].

The Audit and Integrity Committee shall also consider all relationships between the Company and the external audit firm in assessing the independence of the external auditor. It is acknowledged that the provision of non-audit services by the external auditor to the Company may result in skewed incentives and impair the independence of external auditor.

2.4 Relationship between the external auditor and Audit and Integrity Committee

The external auditor and Audit and Integrity Committee shall have a strong and candid relationship. The Audit and Integrity Committee shall establish that the external auditor is directly accountable to the Audit and Integrity Committee, and through it to the Board and ultimately to shareholders.

The Audit and Integrity Committee shall regularly meet the external auditor to discuss matters relating to its remit and any issues arising from the external audit either in camera or as part of its formal meetings.

The lead audit partner of the external audit firm shall also attend the AGM and be prepared to respond to shareholders’ queries and to provide explanation on the issues related to its scope of work.

2.5 Provision of non-audit services

The provision of selected non-audit services could impair the independence, or at least give the appearance of impairing independence of the external auditor in the course of its audit engagement.

¹ From the start of the audit engagement to the date the audit report is issued

The external auditor is prohibited from rendering the non-audit services listed below as the threats cannot be reduced to an acceptable by safeguards.

Prohibited non-audit services	Rationale
Accounting and bookkeeping services , including payroll services and the preparation of financial statements or financial information.	Independence threat
Valuation services if the valuations would have a material effect on the financial statements.	Self-review threat
Preparation of tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries.	Self-review and advocacy threats
Internal audit services that relate to a significant part of the internal controls over financial reporting, financial accounting systems or amount or disclosures that are material to the financial statements.	Self-review threat to independence
Design or implementation of information systems that form a significant part of the internal control or information on financial reporting, accounting records or financial statements.	Self-review threat
Litigation support services in resolving a dispute or litigation when the amounts involved are material to the financial statements.	Self-review or advocacy threats
Recruiting services including reference checks with respect to a director, officer or senior management personnel who would be in a position to exert significant influence over the preparation of the financial statements.	Self-interest, familiarity or intimidation threats
Corporate finance services which involve promoting, dealing in, or underwriting shares.	Advocacy and self-review threats

[Provisions 290.172 to 290.219 of By-Laws (on Professional Ethics, Conduct and Practice) by the MIA]

Prior to the provision of any other non-audit services by the external auditor, the Audit and Integrity Committee shall review and approve the acceptance of these engagements. The Audit and Integrity Committee should ensure that the consequent threats arising from the non-audit services provided can be reduced to an acceptable level by the application of safeguards.

In addition, annual confirmation from the external auditor shall be obtained that the independence of the external auditor will not be impaired by the provision of non-audit services.

2.6 Limitation of the fees of non-audit services

When the total fees from the non-audit services represent a large proportion of the total fees of the external auditor expressing the audit opinion, concerns of independence and objectivity will arise as a result of over-reliance on the fee generated and the familiarity developed with the Group.

As a general principle, the fees for non-audit services shall not in any financial year exceed the sum of audit fees unless due to exceptional circumstances and have been approved by the Chairman of the Audit and Integrity Committee, and for the Board to be notified at the next scheduled Board meeting or via a circular resolution.

The Group shall not enter into any contingent fee direct or indirectly in respect of any non-audit services provided by the external auditor [*Provisions 290.226 of By-Laws (on Professional Ethics, Conduct and Practice) by the MIA*].

If the fees on the non-audit services performed by the external auditor are significant, details on the nature of the services rendered shall be disclosed. Generally, if the non-audit fees constitute 50% of the total amount of audit fees paid to their external auditors, then such non-audit fees are regarded as significant [*Item 9.47A of the Questions and Answers in relation to Listing Requirements*].

The amount of non-audit fees paid or payable to the Company's external auditor, or a firm or corporation affiliated to the auditors' firm shall also be disclosed in the annual report, stating the amount incurred on a Group (Duopharma and its subsidiaries) basis. If no non-audit fees were incurred, a statement to that effect shall be disclosed [*Paragraph 18, Part A, Appendix 9C of Listing Requirements*].

2.7 Appointment of former key audit partner and employees of the external audit firm

Key audit partners will not be offered employment or be appointed as a member of the Audit and Integrity Committee by the Group within two years of undertaking any role in the audit or past audit of the Group.

Other key team members will not be offered employment or be appointed as a member of the Audit and Integrity Committee by the Group within six months of undertaking any role on the external audit.

Other audit team members (excluding key audit partners or key audit team members) who accept employment or are appointed as a member of Audit and Integrity Committee of the Group must cease the audit activity immediately and tender their resignation to the external audit firm.

Any offer of employment to a former employee of the external audit firm in respect of a Senior Management position or appointment of the former employee as a member of the Audit and Integrity Committee must be pre-approved by the Audit and Integrity Committee.

Between meetings, the Audit and Integrity Committee Chairman, in consultation with the AIC members, has the delegated authority to deal with such appointments at his or her discretion. Any such interim approval must be ratified at the next meeting of the Audit and Integrity Committee.

2.8 Rotation of audit partner from the audit engagement

The audit partner responsible for the external audit of the Company is subject to rotation at least once every 5 years. [*Provisions 290.154 of By-Laws (on Professional Ethics, Conduct and Practice) by the MIA*]

3. Review and amendment

The Audit and Integrity Committee shall review and amend this Policy from time to time or as and when necessary, to be in line with legislative promulgations such as Companies Act 2016, Capital Markets and Services Act 2007 and Listing Requirements whilst also taking into account the enumerations of the MCGG and the By-Laws (on Professional Ethics, Conduct and Practice).

All revisions or amendments to this Policy shall be approved by the Board.

Appendix 1

External Auditor Evaluation Form (To be completed ONLY by Audit and Integrity Committee (“AIC”) members)

The External Auditor Evaluation criteria are developed based on emerging and leading practices to facilitate Audit and Integrity Committee’s evaluation of the external auditor’s performance. The criteria are derived from roles and responsibilities of external auditors mentioned in the Bursa Securities Main Market Listing Requirements and the Malaysian Code on Corporate Governance as well as other relevant provisions such as the By-Laws (on Professional Ethics, Conduct and Practice) by the Malaysian Institute of Accountants.

The evaluation may be conducted in the following manner:

1. Company Secretaries distribute the evaluation form (“Form”) to all the AIC members during the 4th quarter of each financial year;
2. The AIC members complete the Form based on their knowledge, understanding and observations of external auditor’s activities and dynamics for the financial year under review
3. The Company Secretary compiles the results from the evaluation and presents it to the AIC Chairman; and
4. The AIC Chairman reviews the results and tables to the Board the outcome of the evaluation.

Background information

Name of External Auditor: _____

Financial year: _____

Date of evaluation: _____

The Evaluation Form provides questions requiring 5-scale ratings from one (1) to five (5) or with the indicators illustrated below, to be responded in relation to the nature of the questions:

1	2	3	4	5
No	Yes, but seldom	Yes, usually	Yes, most of the time	Yes, always
or				
Poor	Below average	Average	Above average	Exceptional

Respond by ticking the selected rating for each statement/question on the following page.

No.	Evaluation criteria	1	2	3	4	5	Comments
Section A: Calibre of external audit firm							
1.	What is the reputation of the external audit firm? Are there recent or current litigation cases against the firm?						
2.	Does the external audit firm have the size, resources and geographical coverage required to audit the Company?						
Total for Section A							
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.	How have key risks, including fraud risk and financial misstatement risk, being discussed and factored into the audit plan?						
5.	How key audit individuals at the external audit firm are compensated and evaluated, and do these compensation and evaluation schemes run the risk of impairing the external auditor's independence?						
6.	How is the external audit firm's process for internal review of accounting judgments, including an understanding of the key issues?						
7.	How are relevant specialists/experts being employed by the external audit firm and how are these linked to the audit process?						
8.	How multiple-location audits and/or overseas audits are controlled and is audit effectiveness regarded as consistent internationally?						
9.	Are the reporting processes for subsidiary audit teams effective?						
10.	How is the external audit firm's approach to seeking and assessing management representations?						
11.	In cases where there are any differences in views between management and the external auditor, does the external auditor communicate its view clearly and accurately from an accounting perspective?						

No.	Evaluation criteria	1	2	3	4	5	Comments
12.	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 'N/A' if none)						
13.	Does the external auditor have an effective working relationship with internal audit?						
14.	Did the auditors meet the performance targets, i.e. audit scope, audit plan, timing, etc.?						
Total for Section B							
Section C: Audit team							
15.	Rate whether the audit engagement partner and individuals assigned to the external audit team have the requisite skills and expertise, including industry knowledge, to effectively audit this company and meet its requirements.						
16.	Is the lead engagement partner able to provide a clear and understandable explanation on auditing and accounting issues faced by the company?						
17.	What is the scope of the audit engagement partner's/other senior personnel's involvement in the audit process and is this sufficient?						
Total for Section C							
Section D: Independence and objectivity							
18.	Does the external audit firm communicate to the company on any matters which might reasonable be perceived to affect the independence of the firm and/or of individuals assigned to the external audit team?						
19.	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?						
20.	Does the external audit firm discuss with the company on safeguards in place to detect and resolve independence issues?						
21.	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?						
Total for Section D							

No.	Evaluation criteria	1	2	3	4	5	Comments
Section E: Audit scope and planning							
22.	Does the external audit firm, with the audit engagement partner present, agree the audit scope and plan with the audit committee?						
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 the company?						
24.	In planning the audit, are adequate considerations given to geographical coverage, resources allocation, level of audit testing and the nature of the audit reports issued at each location?						
25.	Is specialist input to the audit in areas such as taxation, pensions and regulation at an appropriate level?						
26.	Are all key operations covered by the external audit?						
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?						
Total for Section E							
Section F: Audit fee							
28.	Is the external audit fee reasonable given the scope of the external audit, the size, complexity and risks of the Company?						
29.	How does the audit fee compare with other similarly sized companies in this industry?						
30.	Rate how the differences between actual and estimated fees are handled.						
31.	Is an assessment made of the amounts and relationship of audit and non-audit fees and services?						
Total for Section F							
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 being provided with sufficient cooperation during the audit?						

No.	Evaluation criteria	1	2	3	4	5	Comments
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.)?						
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?						
35.	Does the external auditor discuss the critical accounting policies and whether the accounting treatment is conservative or aggressive?						
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?						
37.	Does the external audit firm resolve accounting issues in a timely manner?						
38.	Does the external audit firm seek feedback on the quality and effectiveness of the service they are providing?						
	Total for Section G						
	Overall total (Section A + B + C + D + E + F + G)						
	Scoring (Overall total/ total number of questions applicable x 5)						

Other Comments on External Auditors

Evaluation carried out by:

Name:

Designation: