

PETRONAS GAS BERHAD

BOARD AUDIT COMMITTEE'S TERMS OF REFERENCE

The Board Audit Committee is responsible to oversight the financial reporting process, selection of external auditor, receipt of audit results both internal and external, internal control system, risk management system and internal and external audit functions.

Constitution

The Board Audit Committee (BAC) was formed by the Board pursuant to its meeting on 14 August 1995.

Membership

The members of the BAC shall be appointed by the Board from amongst their number and shall consist of not less than three members. In line with the Malaysian Code of Corporate Governance, all BAC members including the Chairman shall be Non-Executive Directors. The majority of the BAC members including the Chairman shall be Independent Directors. An Independent Director shall be a director who fulfills the requirements as provided in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (MMLR).

All BAC members must be financially literate with at least one member of the BAC:

- (a) shall be a member of the Malaysian Institute of Accountants; or
- (b) if he/she is not a member of the Malaysian Institute of Accountants, he/she must have at least three years' working experience; and
 - i) passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act 1967; or
 - ii) is a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or
- (c) Former Key Audit Partner and any other professionals with previous dealing with the Company are to observe at least a 2-year cooling-off period before being appointed as a member of the Audit Committee; and
- (d) fulfills such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad.

The members of the BAC shall elect a Chairman from amongst their number who shall be an Independent Director.

If a member of the BAC resigns, dies or for any other reason ceases to be a member with the result that the number of members is reduced to below three, the Board shall within three months of that event, appoint such number of new members as may be required to make up the minimum number of three members.

No alternate director can be appointed as a member of the BAC.

The terms of office and performance of the BAC and each of its members shall be reviewed by the Board periodically to whether the BAC and/or its members have carried out its duties in accordance with its Terms of Reference.

Meeting

To form a quorum, the majority of the members present must be Independent Directors and one of whom shall be the Chairman of the BAC. The BAC shall be able to convene meetings with the external auditors, internal auditors or both without the presence of any other directors or employees whenever it deems necessary. The external auditors and internal auditors have the right to appear and be heard at any meeting of the BAC and shall appear before the Committee when required to do so by the BAC.

The Company Secretary or in his/her absence, his/her deputy shall be the Secretary of the BAC. Minutes of the meetings shall be duly entered in the books provided therefor.

Meetings shall be held not less than four times a year. The external auditors may request a meeting if they consider it necessary. The Chairman of the BAC shall convene a meeting of the Committee to consider any matters the external auditor believes should be brought to the attention of the Board or shareholders.

Authority

The BAC is authorised by the Board to investigate any activity within its Terms of Reference. It is authorised to seek any information it requires from any employee and all employees are directed to cooperate with any request made by the BAC.

The BAC is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

The BAC is authorised by the Board to communicate directly with internal and external auditors, as well as the members of Management such as the Chairman of the Company and Managing Director/Chief Executive Officer on a continuous basis in order to be informed and updated with matters related to the Company.

Duties and Functions

The duties and functions of the BAC shall be:

1) External Audit

- a) To consider the suitability and independence of External Auditors for their appointment, the audit fee, and any questions of resignation or dismissal of the External Auditors before making recommendation to the Board; and
- b) To review and discuss with the external auditors, before the audit commences, the nature and scope of the audit, and ensure coordination where more than one audit firm is involved.

2) **Internal Audit**

- a) To review the internal audit plan, consider the major findings of internal audits and Management's responses, and ensure coordination between the internal and external auditors;
- b) To review the adequacy of the scope, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work;
- c) To approve the performance or termination of the Head of Internal Audit
- d) To review the audit reports;
- e) To direct and where appropriate supervise any special project or investigation considered necessary;
- f) To prepare periodic reports to the Board summarising the work performed in fulfilling the BAC's primary responsibilities; and
- g) To determine the remit of internal audit function which reports directly to the BAC. The internal audit function should be independent of the activities they audit and should be performed with impartiality, proficiency and due professional care.

3) **Financial Reporting Review**

To review with the Management and the external auditors the quarterly results and year-end financial statements prior to the approval by the Board, focusing particularly on:

- a) any change in accounting policies and practices;
- b) significant and unusual events;
- c) major judgmental areas;
- d) significant adjustments resulting from the audit;
- e) the going concern assumption;
- f) compliance with accounting standards; and
- g) compliance with other legal requirements and MMLR.

4) **Related Party Transactions**

To review any related party transaction and conflict of interest situation that may arise in the Company including any transaction, procedure or course of conduct that raises the questions of management integrity.

5) **Risk Management**

To review the adequacy and effectiveness of risk management practices and procedures as well as conducting risk profiling reviews on the Company, on a quarterly basis.

6) **Internal Control**

To keep under review the effectiveness of internal control systems and the internal and/or external auditors' evaluation of these systems and in particular review the external auditors' Management Letter and Management's responses.

7) **Other Matters**

- a) To arrange for periodic reports from Management, the external auditors and the internal auditors to assess the impact of significant regulatory changes, and accounting or reporting developments proposed by accounting and other bodies, or any significant matter that may have a bearing on the annual examination;
- b) To discuss problems and reservations arising from the internal audits, interim and final audits, and matters the internal and external auditors may wish to discuss (in the absence of Management where necessary);
- c) Where the BAC is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the MMLR, the BAC must promptly report such matter to the Securities Commission; and
- d) Carrying out any other functions that may be mutually agreed upon by BAC and the Board.

Reporting Procedures

The Secretary shall circulate the minutes of meetings of the BAC to all members of the Board.