

BOARD AUDIT AND RISK COMMITTEE REPORT

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The BARC committee plays a major role in corporate governance regarding the organisation's direction, control, and accountability. As a representative of the Board of Director's and main part of the corporate governance mechanism, the BARC is involved in the organisation's both internal and external audits, internal control, accounting and financial reporting, regulatory compliance, and risk management. The BARC committee will be ensuring independence to the internal and external auditors which give results to true and fair financial reporting that will meet the expectation of and protect the interests of all the stakeholders and mainly shareholders.

COMPOSITION

For the financial year ended 31 December 2020, the BARC comprised of three Directors, all of whom are also members of the Board of the Manager.

The composition of the BARC is as follows:

1. Zainah Binti Mustafa
Chairman/Independent Non-Executive Director
2. Dato' Wan Kamaruzaman Bin Wan Ahmad
Independent Non-Executive Director (appointed on 24 August 2020)
3. Yusof Bin Ahmad
Non-Independent Non-Executive Director (appointed on 24 August 2020)
4. Dr Mohd Hafetz Bin Ahmad
Independent Non-Executive Director (resigned on 24 August 2020)
5. Dato' Sr Dr Rahah Binti Ismail
Independent Non-Executive Director (resigned on 24 August 2020)

Dr Mohd Hafetz Bin Ahmad and Dato' Sr Dr Rahah Binti Ismail resigned from being members of the BARC following the respective resignations as Independent Non-Executive Directors on 24 August 2020.

Dato' Wan Kamaruzaman Bin Wan Ahmad, an Independent Non-Executive Director and Yusof Bin Ahmad, a Non-Independent Non-Executive Director were appointed as member of the BARC effective 24 August 2020

MEETINGS AND ATTENDANCE

Number of Meetings Held and Details of Attendance

The BARC meets at quarterly intervals or such other intervals as the BARC Committee shall decide. During the financial year, a total of 2 BARC meetings were held and the details of attendance are as follows:

No	Name of Committee Member attended	No of meetings
1	Zainah Binti Mustafa	2 out of 2
2	Dato' Wan Kamaruzaman Bin Wan Ahmad	1 out of 1
3	Yusof Bin Ahmad,	2 out of 2
4	Dr Mohd Hafetz Bin Ahmad	1 out of 1
5	Dato' Sr Dr Rahah Binti Ismail	1 out of 1

Terms of Reference

The BARC has a set of Terms of Reference that guides the discharge of its roles and responsibilities. Details of the Terms of Reference are available on the corporate website of www.alsalamreit.com.my

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SUMMARY OF WORK CARRIED OUT DURING FINANCIAL YEAR

The BARC held four meetings during FY2020. The meeting dates were predetermined in advance in order to ensure availability of each member. Meeting papers were circulated to all the BARC members prior to the meetings by way of electronic means and hard copy.

The BARC Committee carried out the following work during the financial year ended 31 December 2020 in the discharge of its functions and duties

Overseeing Financial Reporting

- (a) Reviewed the audited financial statements of Al-Salām REIT for the financial year ended 31 December 2019 FY2019, which were prepared in accordance with the Trust Deed of Al-Salām REIT, Malaysian Financial Reporting Standards, International Financial Reporting Standards and the applicable Securities Commission Malaysia (SC) rules and guidelines, prior to recommending the same to the Board for approval.

At the meeting held on 29 January 2020, the External Auditors presented to the BARC the results of the FY2019 audit conducted on Al-Salām REIT, where significant audit matters such as valuation of investment properties, revenue recognition and fraud considerations, were discussed.

- (b) Reviewed at every quarterly meeting held in FY2020, the quarterly unaudited financial results for public release to ensure adherence to legal and regulatory reporting requirements before recommending the same to the Board for approval. The first, second, third and fourth quarters of the quarterly results for the financial year ended 31 December 2020 were reviewed at the BARC meetings held on 13 May 2020, 19 August 2020, 18 November 2020 and 26 January 2021 respectively.
- (c) Reviewed and discussed with Management the quarterly management accounts, taking into consideration that the necessary processes and controls are in place in the preparation of the financial reports.
- (d) Reviewed, at each quarterly meeting, the income distributions of Al-Salām REIT which were made in accordance with the distribution policy of Al-Salām REIT, in order to ensure the adequacy of the realised income for each distribution prior to recommending the proposal to the Board.
- (e) Kept abreast on the application of the new, revised and amendments to accounting standards such as the Amendments to MFRS3 – Definition of a Business, Amendments to MFRS 101 and MFRS 108 – Definition of Material and Revised Conceptual Framework for Financial Reporting. The External Auditors ensured that the BARC members were briefed on the key requirements and potential impact of these new, revised amendments.

External Audit

- (a) Evaluated the suitability and independence of the External Auditors at the meeting held on 13 May 2020 against evaluation criteria established. Following a satisfactory assessment, the BARC recommended to the Board their appointment as Auditors of Al-Salām REIT in respect of FY2020 for onward recommendation to the Trustee of Al-Salām REIT. The evaluation criteria included, among others, the adequacy and experience of the firm, its resources, and the experience of the professional staff assigned to the audit of Al-Salām REIT.
- (b) Noted the External Auditors' confirmation of their firm's independence in accordance with the terms of all relevant professional and regulatory requirements.
- (c) Ensured that Al-Salām REIT's appointed External Auditors were duly registered with the Audit Oversight Board (AOB) of the SC; based on the verification carried out by the Compliance Officer on the AOB's Register of Auditors as at 31 October 2020 available on the SC's website.
- (d) Reviewed with the External Auditors, at the meeting held on 19 August 2020, their audit plan for FY2020, audit approach, and reporting requirements prior to the commencement of audit works for the year under review.

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- (e) Reviewed the FY2020 audit fees of Al-Salām REIT and ALSREIT Capital for recommendation to the Board, prior to seeking the approval from the Trustee of Al-Salām REIT. The BARC also considered the non-audit fees applicable to Al-Salām REIT for FY2020, and was satisfied that the non-audit fees were not of significant nature and were necessary compliance costs in order for Al-Salām REIT to comply with the relevant requirements.

The details of audit and non-audit fees for FY2020 are disclosed below:

AL-SALĀM REIT		ALSREIT CAPITAL	
Audit fee	Non-audit fee	Audit fee	Non-audit fee
RM156,000	RM10,000	RM30,000	N/A

Internal Audit

- (a) Reviewed with the internal auditors the internal audit reports (including follow-up review reports), the audit findings and recommendations, management's responses and/or actions taken thereto, and ensured that material findings were satisfactorily addressed by management.
- (b) Monitored and reviewed the progress of follow-ups on audit findings to ensure remedial/corrective actions have been taken by Management on a timely basis.
- (c) Reviewed and adopted the risk-based internal audit plan for financial year ending 31 December 2020 to ensure sufficient scope and coverage of activities of Al-Salām REIT and the Group, which include review of tenant procedures in the leasing department, a review of assessment procedures involving vendors/contractors, and a review of building and asset maintenance and safety controls.
- (d) Reviewed internal audit resourcing, with focus on ensuring that the function has sufficient resources together with the right calibre of personnel to perform effectively and that the internal audit team has adequate authority to discharge his functions objectively and independently

Risk Management and Internal Control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. The BARC supports the Board by advising on the Group's overall risk appetite, tolerance and strategy, current risk exposures and future risk strategy. The BARC reviews risk registers produced by the management which covers Strategic, Finance, Operational and Compliance Risks at each of its meetings and the status and progress of action plans in respect of significant risks.

The BARC also considers that appropriate controls are in place in management of the REIT, that the Manager has a well-defined organisational structure with clear lines of responsibility and a comprehensive reporting system and adequate procedures in financial reporting, risk management, internal control and are in place. Further details in respect of risk management and internal controls are set out on pages 99 to 102. Details in respect of the principal risks and uncertainties are set out on pages 53 to 54.

The Committee also reviewed and deliberated on four frameworks relating to compliance and internal controls and recommended to the Board the implementation of the frameworks and policies put forward by the Management, listed as below:

No	Frameworks & Policy	Date of Meeting
1	Anti-Bribery & Corruption Policy and Whistle Blowing Policy	13 May 2020
2	Internal Control Policy	18 November 2020
3	Compliance Framework & Policy	18 November 2020
4	Limits of Authority	18 November 2020
5	Enterprise Risk Management Framework	18 November 2020

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Review of Related Party Transactions (RPT) and Recurrent RPT of a Revenue or Trading Nature (RRPT) & Conflict of Interest Situations

- (a) Reviewed, on a quarterly basis, the RRPT entered into by Al-Salām REIT with related parties to ensure that internal policies and procedures governing RRPT are adhered to, and disclosure requirements of the Main LR are observed, listed as below:
- Carried out in compliance with the REIT Guidelines and the Trust Deed;
 - Carried out on an arms' length basis and under normal commercial terms;
 - Carried out in the best interest of the Unitholders;
 - Abstention from voting at Board Meetings for interested parties;
 - Adequately disclose to the unitholders via Bursa Announcements, Quarterly Reports and Annual Report; and
 - Approved by the Trustee.
- (b) Received updates on the directorships and shareholdings held by the Directors of the Company and persons connected with them in accordance with Section 221 of the Companies Act, 2016 on a quarterly basis. These disclosures enabled an assessment of the potential or actual conflicts of interest which may arise in relation to RPT or RRPT. All Directors are required to provide declaration letters of their interest(s) and disclosures of conflict of interest situation(s) on an annual basis, and all declarations are documented and kept in the statutory records of the Manager. The Committee took note that there were no management conflict of interest situations for operational matters (including any transaction, procedure or course of conduct) as reported by the Chief Executive Officer.

Annual Report

Reviewed the BARC Report, and Statement on Risk Management and Internal Control before recommending these to the Board of Directors for approval for inclusion in 2020 Annual Report.