



ORKIM SDN BHD

**INTERNAL AUDIT
POLICY AND PROCEDURES**



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PREPARED BY	SYED EFFIZAN (HEAD OF RISK, AUDIT AND COMPLIANCE)	SIGNATURE	
		DATE	
REVIEWED BY	TAHIRAH MOHD NOR (CHIEF FINANCIAL OFFICER)	SIGNATURE	
		DATE	
APPROVED BY	CAPT CHEAH SIN BI (CHIEF EXECUTIVE OFFICER)	SIGNATURE	
		DATE	
FINAL APPROVED BY	(NAME) (CHAIRMAN, BOARD RISK AND AUDIT COMMITTEE)	SIGNATURE	
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SECTION 1 – POLICY STATEMENT AND OBJECTIVE

The Internal Audit Policy and Procedures is developed to guide Risk, Audit and Compliance ("RAC") Department in providing independent and objective appraisal of the business activities, operations, management systems and internal controls of the Orkim Sdn Bhd and its Group of Companies ("Orkim" or "the Group") and help to ensure that the Group's resources are used efficiently and effectively.

SECTION 2 - CIRCULATION AND REVIEW

The Policy and Procedures shall be reviewed at least annually. RAC Department shall be responsible for the administration, interpretation and application of this Policy and Procedures. This Policy and Procedures shall be made available to all Orkim employees.

SECTION 3 - APPLICATION

The Policy and Procedures apply to all personnel of the RAC Department of Orkim and shall be read in conjunction with the Orkim approved Limits of Authority ("LOA").

SECTION 4 – RESPONSIBILITY AND AUTHORITY

The RAC Department reports functionally to the Board Risk and Audit Committee ("BRAC") and administratively to the Chief Executive Officer ("CEO"). The scope of Internal Audit's ("IA") responsibility is defined within this P&P.

SECTION 5 – INDEPENDENCE

To maintain independence and objectivity, the IA function has no direct responsibility or any authority over the activities or operations that are subject to review, nor should IA develop and install procedures, prepare records or engage in activities that would normally be subject to review. However, IA may be consulted when new systems or procedures are designed to ensure they adequately address internal controls.

SECTION 6 – OBJECTIVITY

IA is a service function organized and operated primarily for the purpose of conducting audits, in accordance with the International Professional Practices Framework ("IPPF") that organizes authoritative guidance promulgated by the Institute of Internal Auditors ("IIA"). The evidential matter gathered from these audits forms the basis for furnishing opinions and other relevant information to members of management, BRAC and the Board. Opinions and other information furnished may attest to the adequacy of internal control, the degree of compliance with established policies and procedures, and/or their effectiveness and efficiency in achieving organizational objectives. IA may also recommend cost effective courses of action for management to consider in mitigating risks that may have been identified during an audit.

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SECTION 7 – CONFIDENTIALITY

All information obtained during an audit is deemed confidential unless otherwise instructed. It is understood that certain items are confidential in nature and special arrangements may be required when examining and reporting on such items. The RAC Department will handle all information obtained during a review in the same prudent manner as the custodian of such information. The RAC Department respects the value and ownership of information they receive and will not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

IA reports are considered highly confidential and they are distributed to the CEO, Management Executive Committee ("EXCO") and BRAC. Other interested parties in the audit report may gain access by contacting the Head of RAC with the approval of the CEO and the Chairman of BRAC.

SECTION 8 – CODE OF ETHICS

IA shall subscribe to the Code of Ethics established by the Institute of Internal Auditors Malaysia ("IIAM"), as well as adhere to all other ethical policies set forth by the Company. In addition, all IA personnel will uphold the following:

Integrity - Establish trust and thus provide the basis for reliance on the judgment of IA. Remain tactful, honest, objective, diligent and credible in all relationships as a representative of the Group.

Objectivity - Exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the area being examined. Make balanced assessments of all the relevant circumstances and do not become unduly influenced by individual interests or by others in forming judgments.

Confidentiality - Respect the value and ownership of information they receive. Do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Competency - Apply the knowledge, skills and experience needed in the performance of internal auditing services and continually improve their proficiency and the effectiveness and quality of services.

SECTION 9 – STANDARD OF CONDUCT

IA will adhere to the following Standards of Conduct:

Service - Preserve a commitment to carry out all responsibilities with an attitude of service toward the management while maintaining a sincere, dignified and thoughtful attitude.

Excellence - Uphold a high standard of service and a commitment to quality in performing all IA engagements.

Leadership - Provide noteworthy examples which emphasize high ethical and moral standards.

Professionalism - Conduct business in a manner that reflects favorably on the individual auditor, and exercise skill, integrity, maturity and tact in all relations.

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SECTION 10 – RESPONSIBILITY FOR DETECTION OF ERRORS OR IRREGULARITIES

Given reasonable assurance, audit procedures alone are not guaranteed in the detection of all fraud or errors. Management is primarily responsible for establishing and maintaining an effective system of internal controls to prevent and detect propensity for fraud and errors, as well as ensuring business operations remain effective, efficient and compliant to regulatory and industry standards. IA is responsible for examining and evaluating the design and operating effectiveness of those controls.

SECTION 11 – SERVICES PROVIDED BY INTERNAL AUDIT

IA's primary activity is the implementation of a program of regular audits of the Group's business operations as outlined below:

1. **Operational Audits** - Operational audits consist of risk-based reviews of operating processes and procedures, and internal controls that mitigate area-specific risks. These audits examine the use of resources to determine if they are being used in the most effective and efficient manner to fulfill the Company's mission and objectives.
2. **Compliance Audits** - These audits determine the degree to which areas within the industry that the Group operates adhere to. Recommendations usually require improvements in processes and controls used to ensure compliance with statutory and industry regulations.
3. **Investigative Audits** - These audits are conducted to determine existing control weaknesses, assist in determining the amount of loss and recommending corrective measures to prevent subsequent reoccurrence. On specific circumstances, the RAC Department may collaborate with external consulting parties/agencies to validate the alleged misconduct at the Group. These types of investigations can encompass bribery, abuse/misappropriation of funds or assets, potential fraud or potential conflicts of interest.

SECTION 12 – PROFESSIONAL PROFICIENCY

Professional proficiency is the responsibility of each internal auditor. The Head of RAC will assign each audit to the person who possesses the necessary knowledge, skills and disciplines to conduct the audit properly. Each internal auditor has a professional obligation to schedule and attend on-going continuing professional education, industry forums and skill enhancement training to ensure they remain proficient.

As a continuing process, the Head of RAC is responsible for providing appropriate audit supervision and will document evidence of supervision and review on all audits. This will be accomplished by reviewing and approving all work papers, reports and audit documents before they are finalized for presentation to the management, EXCO and BRAC.

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SECTION 13 – RISK-BASED ANNUAL INTERNAL AUDIT PLAN

1. The Head of RAC is responsible for developing a risk-based annual IA Plan that includes areas subject to review for each fiscal year. The annual IA Plan is a written document showing specific audits or projects to be performed by the RAC Department and it is prepared by the Head of RAC, reviewed by the CEO and approved by the BRAC.
2. The annual IA Plan will be the output resulting from the understanding of business' strategic plan, current/historical financial and operational performance, Key Performance Indicators ("KPIs") and enterprise-wide risk assessment process. This will be used to drive risk-based annual audit planning.
3. Regular enterprise risk assessment process will build on the current and prior year's work to be more inclusive of all areas in which the business is exposed to risk. It will consider both inherent and residual risk (risk before and after consideration of controls, respectively). Data will be gathered through management interviews, surveys, process/sample document walkthrough etc. IA will also consider the extent to which an area has been included in the audit plan in prior years, seeking to provide audit coverage that is consistent and appropriate to risk level.
4. As the Group's enterprise risk management functions evolve, the IA risk scoring will be used to quantitatively calculate risk levels. These ratings provide a quantitative guide as to whether an auditable entity should be included in the annual audit plan. Qualitative factors, such as regulatory requirements, prior audit ratings, coverage by other controls functions and management requests are also taken into consideration.
5. While IA will primarily perform audits as per the approved annual internal audit plan, the department may also be asked to conduct additional audits or special projects at the direction of the BRAC. To the extent that any unplanned audits or projects necessitate substantial changes to the annual IA Plan, BRAC's approval will be sought.

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SECTION 14 – STANDARD OPERATING PROCEDURES

14.1 Fundamental Phases of Internal Audit Engagement

There are four (4) fundamental phases to the internal audit engagement: planning, fieldwork, reporting and on-going follow-up.

Planning phase

1. During the planning phase of an audit engagement, along with management being notified, information is gathered about the area to be reviewed and existing controls are evaluated.
2. Prior to beginning an audit, management is informed of the audit indicating the scope and objectives of the review. During the kick-off meeting, the internal auditor meets with the management directly responsible for the process under review. It is encouraged that management also identify issues or areas of special concern that should be addressed as part of the audit, for consideration.
3. Business understanding process and internal control analysis will be performed to determine the areas of highest risk and to design tests to be performed in the fieldwork section.

Fieldwork phase

1. The fieldwork concentrates on transaction testing of targeted internal controls and the accuracy and propriety of the transactions. It is during this phase that the auditor determines whether controls have been adequately designed and are operating effectively to mitigate risk.
2. As fieldwork progresses, verbal and/or written communications are made on any significant observations and are discussed with management.
3. The fieldwork phase concludes with a list of significant observations from which the auditor will prepare a draft internal audit report.

Reporting phase

1. Communication with management is an integral part of any internal audit and will occur on an ongoing basis as the audit progresses. During the performance of audit, the internal auditor should ensure their understanding of the controls and supporting documentation provided by management is correct and complete. If a potential audit observation is identified, it should be discussed with management so that the auditor can ensure their facts are accurate and initiate dialogue regarding the best method of remediation.
2. An exit conference is performed with the auditee/process owner to discuss the draft audit observations and to obtain management response (agreed action plan/corrective measure) with an implementation deadline. Then, a second meeting with the respective Divisional/Departmental Head will be held to confirm the same.

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3. In some cases, process owner/Divisional/Departmental Heads may choose to respond with a decision to implement a compensatory action plan/corrective measure in variation to the stated audit recommendation or not to implement any audit recommendation (by accepting the risks associated with the audit observations). If the management disagrees with the audit observation, the final internal audit report may state both positions and the reasons for the disagreement.
4. The final internal audit report (with the management's agreed action plan and implementation deadline) is provided to the Divisional/Departmental Head and to the EXCO and ready for presentation to the BRAC.
5. Within the final internal audit report, the risk rating and implementation priority of individual audit observation will be included. **Appendix 1** provides a scale rating and related guidelines.

On-going follow-up

1. RAC Department will periodically follow-up with management via an internal audit follow-up log to ensure that the agreed-upon action plans/corrective measures have been implemented, as per the agreed deadlines. All unresolved observations will be discussed in the internal audit follow-up log.
2. If the corrective action has a long-range due date (> 6 months), the auditor should inquire with management about the progress of implementation at reasonable intervals. Any requests made by management to change the due date must be discussed with the Head of RAC and presented to the CEO for approval. Then, the log will be updated to reflect the change and underlying rationale.
3. Once management reported that a corrective action has been implemented, the internal auditor should perform a sample walk-through to confirm the control. The Head of RAC will report outstanding and overdue audit observations to EXCO and BRAC as per the scheduled meetups.

14.2 Sample Selection

1. In deciding on a sample methodology and size, auditor must determine the audit objectives; identify the population characteristics of interest; and consider the degree of risk that is acceptable. Consideration should also be given to the significance of the control in question and the level of assurance desired.
2. Thus, for highly critical controls, or when a single manual control provides the sole support for any given assertion, the auditor will consider increasing the sample size. The extent of testing of a particular control will vary depending on a variety of factors such as:
 - a) Complexity of the control
 - b) Significance of judgment in the control operation
 - c) Level of competence necessary to perform the control
 - d) Frequency of operation of the control
 - e) Impact of changes in volume or personnel performing the control
 - f) Importance of the control

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3. For an automated control, the number of items tested can be minimal (one to a few items), assuming that information technology general controls have been tested and found to be effective. Nevertheless, each attribute of the automated control should be tested for operating effectiveness. In some cases, management overridden procedures may allow automated control to be circumvented. This override capability should be evaluated to assess potential internal control deficiencies.

14.3 Testing Conclusions

1. The auditor is responsible for ensuring that controls have been adequately designed and are operating effectively to mitigate risk. Control design should be evaluated by considering whether the control activity is appropriate for the risk it is intended to mitigate. Operating effectiveness is evaluated by confirming the control operates correctly and consistently in accordance with management's design through sample testing.
2. An audit observation is indicated if, during testing, that any of the control activities identified in the engagement are not properly designed or not operating as intended. The auditor will then assess each finding to determine its significance to the overall control environment. Evaluation factors will include the impact and likelihood of the underlying risk, as well as the existence of complementary or compensating controls.
3. All testing results should be clearly indicated on the individual audit work papers.

14.4 Work Paper Documentation and Standard

1. Audit work papers are a representation of the auditors' activities across the phases of every audit. Each phase of an audit is supported by audit work papers that document the work planned and performed, the auditor's thought process and the conclusions reached. Complete and accurate work papers include sufficient evidence to:
 - a) Demonstrate that the audit plan, scope and objectives for the review have been satisfactorily completed
 - b) Contain detailed evidence for any findings resulting from the examination
 - c) Support any audit opinion or rating rendered on the system of internal controls.
2. To that end, audit papers also need to support that due professional care was exercised and illustrates compliance with professional auditing standards. Comprehensive and well-organized work papers are characterized as follows:
 - a) Work papers must be able to "stand alone." This means that a person external to the audit or not necessarily familiar with audit policies and procedures should be able to follow the work from planning through fieldwork to the report with no information besides what appears in the work papers.
 - b) Work papers must be confined to those that serve a useful purpose. Items that are used in the audit should be evaluated as to their necessity in the work papers. Work papers are not retained if they are not required to support the conclusions drawn in the audit. Documents that support evidence of exceptions to policy and procedure should be included in the work papers.

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3. Hard copy supporting documentation should be included in the workpaper for all exception-basis samples. There must be complete visibility into the conclusions reached through testing.
4. Work papers must be well organized in an audit working file to ensure the flow of the work papers to be logical. A table of contents should be used to guide the reader to all components of the audit working file, which should be organized, in order, as follows:
 - a) Section A - Audit Planning Memorandum, approved annual IA Plan
 - b) Section B - Audit Report (Draft and Final)
 - c) Section C and beyond – Respective audit program, lead schedule/sheet, testing sheet, supporting evidence/materials.
5. Work papers should be cross referenced to the appropriate lead sheet and audit program.
6. The auditor should make full use of the work papers developed in prior audits. Flowcharts, process descriptions, and other data may still be valid. Those papers that remain useful should be made as part of the current working papers.
7. The auditor should sign and date all the work paper files they have prepared or reviewed.

14.5 Work Paper Review

1. Each individual auditor is responsible for managing the progress of the audit. The Head of RAC may perform an interim review of audit papers and will conduct a final quality check of all work papers to verify proper completion and adherence to department work paper standards. The Head of RAC's review must be completed prior to the issuance of a final deliverable.
2. The Head of RAC will prepare a log of review points to communicate any open questions or areas where the work papers need to be enhanced to the auditor. The auditor will formally respond to the log to ensure that the points have been satisfactorily addressed. The log should be maintained within the work paper file.

14.6 Control/ Confidentiality of Work Papers

The auditor is to know exactly where the work papers are during the conduct of the audit. During an audit, work papers should not be left unattended. Work papers are to be kept in a secure area not readily available to people unauthorized to access them. Access to work papers is limited to authorized personnel in the RAC Department. In circumstances where requests for access to audit work papers and reports are made by parties either within or outside the Company, approval must be obtained from the Head of RAC.

14.7 Supervision and Performance Appraisal

The Head of RAC should consider the extent of supervision required will depend on the proficiency of the auditor and the difficulty of the audit assignment. Notwithstanding the annual performance appraisal, a regular engagement-based appraisal on the auditors may be performed, based on pre-determined performance criteria. The feedback received provides the auditors with information they can use to improve on their job performance, on a continuous basis.

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APPENDIX 1

Audit Observation - Priority Rating Definitions

Audit observation will be risk-rated in terms of the proposed implementation priority in accordance with the following guidelines:

PRIORITY	DEFINITION / CRITERIA
HIGH	<ol style="list-style-type: none"> Audit observations considered to be fundamental to maintenance of internal control, good corporate governance or best practice for processes. These observations should be subject to agreed remedial action either immediately or not later than three (3) months from the date of issue of final audit report to Management. Represents observations that management should resolve promptly because the findings could have a significant adverse impact to the business and because one or more of the following conditions apply: <ol style="list-style-type: none"> Key controls are not functioning as designed or controls do not exist. Current process could potentially or does violate critical regulatory requirements or corporate policies and procedures. Control weakness undermines the overall integrity of the system or process because it compromises the achievement of the business objective. Financial impact is substantial (if loss occurred) or has the potential to be substantial and wide-spread impact on Orkim.
MODERATE	<ol style="list-style-type: none"> Audit observations considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. These observations should be subject to agreed remedial action within three (3) to six (6) months from the date of issue of final audit report to Management. Represents findings that management should resolve in a reasonable time frame, because the findings could have an adverse impact—but not likely a critical one and because one or more of the following conditions apply: <ol style="list-style-type: none"> Either key controls are not functioning as designed or controls do not exist, but mitigating controls exist and are operating effectively. The current process could violate less critical regulatory requirements or corporate policies and procedures. Control weakness does not undermine the overall integrity of the system or process but compromises a critical component(s) designed to achieve the business objective. Financial impact is substantial to the audited process/function but does not have the potential for a wide-spread impact on Orkim.
LOW	<ol style="list-style-type: none"> Audit observations considered to be of minor importance to maintenance of internal control, good corporate governance or best practice for processes. These observations should be subject to agreed remedial action and further evaluation within twelve (12) months from the date of issue of final report to Management. Represents findings that have a less significant adverse impact on the business because one or more of the following conditions apply: <ol style="list-style-type: none"> Sufficient compensating controls exist where weaknesses are noted Financial impact is limited in amount and extent.