# Audit Committee's Report on the Fiscal Year Ended December 31, 2023

## Introduction

In 2023, the Audit Committee oversaw efficiency and effectiveness of the internal control environment at Modern Mills Company. To asses that, a number of meetings were held during 2023 with the head of Internal Audit, Senior Management and External Auditors. This report briefly summarizes the Audit Committee roles and responsibilities, meetings conducted, effectiveness of the internal control system and the Audit Committee opinion on internal control system.

## 1-Meetings of the Audit Committee During 2023

| Name of the Member | Meetings of the Audit Committee During 2023 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1St Meeting 19th January | 2nd Meeting 21st March | 3rd Meeting 5th July | 4th Meeting 27th August | 5th Meeting 02nd October | 6th Meeting 26th October | 7th Meeting 06th December | Member Number of Meetings | Attendance Rate |
| Ehsan Amanullah Makhdoum | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7 | 100% |
| Lisa Meeks | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7 | 100% |
| Mohammed Abdulhafiz | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7 | 100% |
| Abdulrhman Al Owais)* | - | - | - | - | - | X | ✓ | 1 | 14.2% |

- **Mr. Abdulrahman Alowais** joined the Audit Committee after its reformation on 04/04/1445 H, corresponding to 19/10/2023.

## 2-Responsibilities and activities of the Audit Committee

The Audit Committee has conducted the following activities during the year:

### Financial reports

- Analysing the Company's interim and annual financial statements before presenting them to the board and providing its opinion and recommendations thereon to ensure their integrity, fairness, and transparency.
- Providing its technical opinion, at the request of the Board, regarding whether the board's report and the company's financial statements are fair, balanced, understandable, and contain information that allows shareholders and investors to assess the company's financial position, performance, business model, and strategy.
- Analysing any important or non-familiar issues contained in the financial reports.

- Accurately investigating any issues raised by the Company's management or any person assuming his/her duties or the Company's compliance officer or external auditor.

- Examining the accounting estimates in respect of significant matters that are contained in the financial reports.

- Examining a set of operational, accounting and information technology and cybersecurity policies followed by the Company and providing its opinion and recommendations thereon.

**Internal audit**

- Examining and reviewing the Company's internal and financial control systems.

- Analysing the internal audit reports and following up the implementation of the corrective measures in respect of the remarks made in such reports.

- Monitoring and overseeing the performance and activities of the internal auditor and internal audit department of the Company, to ensure the availability of the necessary resources and their effectiveness in performing the assigned activities and duties.

**External auditor**

- Providing recommendations to the board to nominate external auditors, dismiss them, determine their remunerations, and assess their performance after verifying their independence and reviewing the scope of their work and the terms of their contracts.

- Verifying the independence of the external auditor, its objectivity, fairness, and effectiveness of the audit activities, considering the relevant rules and standards.

- Reviewing the plan of the Company's external auditor and its activities and ensuring that it does not provide any technical, administrative, or consulting works that are beyond its scope of work and provides its opinion thereon.

- Responding to queries of the Company's external auditor.

- Reviewing the external auditor's reports and its comments on the financial statements and following up the procedures taken in connection therewith.

**Legal matters**

- Regularly inquires of legal counsel regarding any pending or threatened legal actions, ensuring pre-emptive measures and responses are appropriately positioned.

- Reviews legal update slides prepared for the committee on a quarterly basis, staying abreast of legal and regulatory changes pertinent to the company's operations.

- Analyses internal audit reports, which include a comprehensive review of controls against GFSA (former SAGO) requirements, as well as compliance with Civil

Defence, the General Organization for Social Insurance (GOSI), and the Ministry of Human Resources and Social Development standards.

- Enterprise Risk Management Oversight
- In 2023 the committee received an additional responsibility of risk management oversight, where the committee is looking to establish and oversee a structured approach to the company's risk management.

## 3-Effectiveness of the internal control system

### Internal Control

Executive management is responsible for establishing and maintaining an adequate and effective internal control system, which necessitates abiding by policies, procedures, and processes that the executive management, under Board supervision, has put in place to ensure the realization of its strategic aspirations and to protect its assets.

The scope of the Internal Audit function includes periodic assessment of the adequacy and effectiveness of the internal control system, as well as the compliance and implementation of all applicable policies, procedures, and regulatory requirements. All significant and material findings from Internal Audit function reviews and corrective actions are reported to senior executive management and the Audit Committee. The Audit Committee reviews significant and material findings periodically. The Board of Directors has full access to all reports of its committees, which include the annual internal audit report. These are reviewed regularly to provide an ongoing assessment of the effectiveness of the internal control system facilitating the identification of any potential deficiency.

### Annual review of the effectiveness of internal control procedures

For 2023, audits conducted during the year confirmed that the systems and procedures for the identification, evaluation, and management of the risks that may be faced by the Company have been achieved to a reasonable extent with no significant deficiencies in the control environment.

It is essential to acknowledge no control system can provide absolute assurance. And is not possible to absolutely confirm the comprehensiveness of the examinations and evaluations of internal controls, as auditing is based on random sampling.

## 4-Opinion of the Audit Committee

To provide a reasonable assurance opinion concerning the internal control system's effectiveness, the Audit Committee supervises the Internal Audit function, which routinely evaluates the internal control system's adequacy and effectiveness. The committee also reviews the external auditor's reports, including significant accounting estimates, and management letters, which might include any weakness of internal control noted by external auditors as part of their internal control assessment. The Committee also reviews and discusses legal matters with the in-house counsel. The Audit Committee also considers that management position in general regarding internal control is positive, as the majority of activities are governed by written policies and procedures, and management reacts positively towards the recommended policies or improvements.

Based on the above, the Audit Committee considers that the objectives of the internal control system have been achieved to a reasonable extent.

The Audit Committee also stresses that the emerging stage requires the Board of Directors and management to work on updating the control environment and risk management systems to help overcome current or future changes and challenges at all levels with regard to the efficiencies and effectiveness of the company's operations.

**Audit Committee**
**Modern Mills Company**

**Mr. Ehsan Makhdoum**
**Chairman of Audit Committee**