

Regulations and policies generated from Corporate Governance

Zahrat Al Waha for Trading

Saudi public joint stock company



شركة زهرة الواحة للتجارة
Zahrat Al Waha for Trading Company



Audit Committee regulation

Audit Committee regulation

This policy was issued pursuant to the decision of the company's shareholders' general assembly held on Monday 14/09/1442 corresponding to 04/26/2021, based on the recommendation of the Board of Directors at its meeting No. 4/2020 held on 12/12/1441 corresponding to 07/23/2020.

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Audit Committee regulation

1- Purpose

In the interest of the company's management to raise the effectiveness of governance, and with the aim of achieving a high degree of transparency, achieving the company's goals and developing its performance, the company has adopted the audit committee's regulation and the selection of its members based on the competence and ability to represent the audit committee, in a manner that ensures the availability of expertise, ability, and scientific and practical knowledge that This regulation aims to regulate the work of the audit committee by defining its functions and authority, in addition to its work controls and procedures, the rules for selecting its members, how to nominate them, and determining their remuneration in accordance with the standards and controls contained in the system Companies, Corporate Governance Regulations and other relevant laws

The Audit Committee is considered one of the important committees in the listed public joint-stock companies because of its essential and effective role in supervising the work and procedures of external auditing, internal auditing, the internal control process, developing systems and plans related to these activities and following up on their implementation and the company's commitment and compliance with generally accepted regulations and standards. The regulations of the Saudi Capital Market Authority and the Saudi Companies Law have given special importance to the audit committee through its formation by the General Assembly in accordance with the provisions of Article (101) of the Companies Law and strengthening its framework and authority

2- Objectives of the Committee

- Verifying the completeness and adequacy of the internal audit work by reviewing the effectiveness, completeness, and adequacy of the arrangements for the internal audit department.
- Verifying the company's management's response to the topics that are identified and monitored through the activity and work of the committee, especially the work of internal auditing and external auditing, and verifying its independence.
- Verifying the company's acceptance and understanding of the role, function, and value of the internal audit through the established mechanisms such as the annual internal audit report.
- Measuring and evaluating the effectiveness of the company's internal control and audit systems.

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- Verify compliance with the regulations, laws, standards, and policies related to the scope of work, tasks and responsibilities of the committee.

3- Responsibilities

- The Audit Committee is responsible for preparing and reviewing the regulation and proposing changes it deems appropriate and submitting them to the Board of Directors for consideration.
- The Secretary of the Board of Directors is responsible for supporting and assisting the Audit Committee to issue and update this policy and to develop procedures that assist in its implementation.
- The Audit Committee's work list is presented to the General assembly for approval.
- The company's audit committee is responsible for implementing what is mentioned in these regulations.
- The Board of Directors monitors the work of the Audit Committee regularly to verify the practice of the business assigned to it.

4- References

- Companies Law issued by Royal Decree No. (M/3) on 1/28/1437 AH corresponding to 11/10/2015, as amended by Resolution of the Board of the Capital Market Authority on 7/1/1441 AH corresponding to 02/25/2020.
- Articles of association of the company issued on 10/10/1440 AH corresponding to 6/13/2019 based on the decision of the company's extraordinary general assembly on 9/14/1440 AH corresponding to 5/19/2019.
- The regulatory controls and procedures issued in implementation of the Companies Law for listed joint stock companies issued by the Capital Market Authority.
- Corporate Governance Regulations issued by the Board of the Capital Market Authority pursuant to Resolution No. (16-8-2017) on 16/5/1438 AH corresponding to 2/13/2017 amended by Resolution of the Board of the Capital Market Authority No. (3-57-2019) on 15/9/1440 AH corresponding to 5/20/2019.
- Corporate Governance Regulations.
- Membership policies and procedures for the Board of Directors' committees.
- A regulation of the work procedures of the Board of Directors.
- Nomination and Remuneration Committee regulation.

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- Governance Committee Regulations.

5- Formation of the Committee

- The audit committee is formed by a decision of the company's general assembly based on a proposal from the board of directors. The decision includes its duties, its work controls, the remuneration of its members, and the duration of their membership.
- The audit committee shall be formed from other than the members of the executive board of directors, whether from the shareholders or from others. The number of members of the committee should not be less than three and not more than five, provided that among them is an independent board member, and among them there is a specialist in financial and accounting affairs.
- The General Assembly - based on the nomination of the Board of Directors - appoints the members of the Audit Committee in accordance with the following selection rules:
 - That the candidate has a record of experiences related to the tasks of the audit committee.
 - The candidate must have a good knowledge of the company's activities and business and risks it faces.
 - That among the candidates be specialists in financial and accounting affairs, such as holders of a university degree or professional fellowship in accounting.
 - The candidate should not be an employee (or have worked in the past two years as an employee) of the company or any company within its group or any party associated with it, such as an auditor, major suppliers or clients, or be owner of controlling shares with any of those parties During past two years.
 - That a judgment has not been issued against the candidate for committing an act that violates honor or trust or violates the laws and regulations in the Kingdom of Saudi Arabia or in any other country.
 - The selection of the candidate for the membership of the committee should not be contrary to the relevant laws, regulations and instructions.
- The members of the committee choose a chairperson from among them for the duration of the committee's membership, and if the committee chair is absent or unable to meet remotely, the members of the committee present will appoint a chairperson for the meeting.
- A committee member performs his duties from the date of his appointment, and his membership ends in one of the following cases:

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- The end of the session of the Board of Directors.
- His resignation, without prejudice to the right of the company to compensation if the resignation occurred at an inappropriate time.
- He suffers from a mental illness or a physical disability that prevents him from performing his duties on the committee.
- A court ruling declaring his bankruptcy or insolvency or his request for a settlement with his creditors.
- A conviction for committing an act that breaches honor and trust or for forgery, or for violating the laws and regulations in force in the Kingdom of Saudi Arabia or in any other country.
- A decision by the General Assembly to exempt him from membership in the committee for any of the following reasons:
 - Breaching his responsibilities, tasks and duties, which would result in harm to interest of company.
 - He was absent from three consecutive meetings within one year without a legitimate excuse.
 - Other than the above-mentioned reasons that the association considers; This is without prejudice to the right of the dismissed member towards the company to claim compensation if the dismissal occurred for an unacceptable reason or at an inappropriate time.
- Losing at any time any of the selection rules for membership in the audit committee established by law or in accordance with these regulations.
- If the position of a member of the committee becomes vacant in one of the previous cases or others during the term of membership, the Board may appoint - temporarily - a member of the vacant position, provided that he who meets the selection rules for membership of the committee referred to in these regulations, provided that the appointment is presented to The General assembly at its first meeting to approve it, and the new member completes the term of his predecessor.
- If the general assembly is not able to form the members of the committee at the beginning of the session of the board of directors, the board may form an audit committee - temporary - provided that its members meet the selection rules for membership of the audit committee referred to in these regulations, provided that the temporary committee works in accordance with the provisions of these regulations And its members are granted remuneration calculated based on the decision of the general assembly determined for the annual remuneration of the members of the audit committee that precedes the formation of the temporary committee, and the board of directors shall invite the general assembly to meet within a period not exceeding three months from the date of the formation of the aforementioned committee. To form the audit committee.

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- The committee shall appoint a secretary for it, whether from among its members or whoever it deems appropriate from the company's management team to prepare for the committee's meetings and work, prepare its minutes, document them, and follow up on the implementation of its recommendations, directives and decisions without having the right to vote.

6- Duties and responsibilities of the committee

In light of what is stated in Chapter Four of the Companies Law, and what is stipulated in the rules governing the Audit Committee in the Corporate Governance Regulations issued by the :Capital Market Authority, the duties and responsibilities of the audit committee are as follows

✓ **First: Financial Reports**

- Reviewing the preliminary quarterly and annual financial statements before submitting them to the Board of Directors and expressing opinions and recommendations regarding them to ensure their integrity, fairness and transparency.
- Express a technical opinion on whether the annual report of the board of directors and the financial statements of the company are fair, balanced and understandable, and include information that allows shareholders and investors to evaluate the financial position of the company, its performance, business model and strategy.
- Study the unusual issues included in the financial statements and make recommendations regarding them if necessary.
- Searching for any issues raised by the company's financial manager, whoever assumes the duties of the company's compliance officer, or the auditor.
- Verify accounting estimates in the material issues included in the financial reports.
- Study the financial and accounting policies followed in the company and express opinion and recommendation to the Board of Directors in this regard.

✓ **Second: Study the internal control systems**

- Study and review the internal and financial control and risk management systems and ensure their effectiveness through periodic reports of the Internal Audit Department or others on the adequacy and effectiveness of the internal and financial control systems and risk management systems and follow up the implementation of recommendations and corrective actions for the notes contained therein.
- Preparing a report for the Board of Directors that includes its opinion on the adequacy of these systems and their recommendations to deal with essential matters and any other recommendations for developing these systems and what it has undertaken of other actions that fall within its jurisdiction.

✓ **Third: The Internal Audit Department**

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- Supervising and monitoring the work of the Internal Audit Department and verifying its effectiveness in performing its duties and responsibilities.
 - Study and approve the annual audit plan with the Internal Audit Department.
 - Studying and reviewing the reports of the periodic internal review department and following up the implementation of corrective actions for the observations contained therein.
 - Recommending to the Board of Directors to approve the organizational structure and job description of the internal audit department, and to ensure its independence in the organizational structure of the company.
 - Recommending to the Board of Directors to appoint or dismiss the Director of the Internal Audit Department, and to evaluate his performance on an annual basis.
- ✓ **Fourth: The Auditor**
- Recommending to the Board of Directors to nominate or dismiss the auditors, and to determine their fees, after evaluating their performance, ensuring their independence and reviewing the scope of their work and the terms of contracting with them.
 - Verifying the auditor's independence and objectivity, and the effectiveness of the audit work, in light of the rules and standards regulating this.
 - Reviewing the auditor's work procedures plan, verifying that there is no excess or deficiency in the performance of his duties and verifying that he is not performing tasks outside the scope of the audit work and expressing his views on that.
 - Answer the inquiries of the company's auditor and provide the necessary support to enable him to perform his duties.
 - Studying the auditor's reports and notes on the financial statements and following up on what has been taken in their regard.
- ✓ **Fifth: To ensure compliance**
- Study the reports of the supervisory authorities regarding the company's compliance with the regulations and instructions and ensure that the company takes the necessary measures them.
 - Ensure that the company adheres to the relevant laws, regulations, policies and instructions.
 - Review the contracts and proposed transactions that the company conducts with related parties and express opinion to the Board of Directors regarding them.
 - Submitting and recommending to the Board of Directors the necessary measures to be taken in matters that it deems necessary for the Board to take action on them.
- ✓ **Sixth: Arrangements for submitting comments**
- Establishing the appropriate mechanism through which employees of the company can provide their observations regarding any violation of the company's internal systems, including the systems

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related to the preparation of the company's financial statements, provided that this mechanism ensures that the rights of the observer are not violated because of his submission to them.

- Establishing appropriate procedures to initiate, and follow-up on observations made by company employees, and to ensure the independence of those procedures.

7- The Committee's authority

In order for the audit committee to be able to perform its duties, and in accordance with the :relevant laws and regulations, it shall have the following authority

- The audit committee has the right to form a working group emanating from it for any purpose it deems appropriate, provided that the number of members of any working group is not less than two. It is also entitled to grant, and achieve its objectives, the work team emanating from it some of its authority and authority when it deems it appropriate.
- Investigating any activity that falls within its authority or any subject specifically requested by the board of directors, the shareholders association, or the external auditors.
- To seek legal and technical advice from any external or advisory body whenever necessary to assist the committee in performing its duties.
- The audit committee is responsible for monitoring the company's business and in order to perform its duties:
 - Requesting access to company records and documents.
 - Requesting any clarification or statement from the Board of Directors or the Executive Management.
 - To ask the board of directors to invite the general assembly of the company to convene if the board of directors impedes its work or suffers heavy damage or losses.
 - Interviewing the external auditors and employees of the company, including the Director of the Internal Audit Department, to inquire from them about the audit work and make any observations within the scope of its work.
- If there is a conflict between the recommendations of the audit committee and the decisions of the board of directors, or if the board refuses to take the committee's recommendation regarding the appointment and dismissal of the company's auditor, determining his fees and assessing his performance, or appointing the director of the internal audit department, the board's report must include the committee's recommendation and justifications, and the reasons for not taking it into account.
- The audit committee - at the expense of the company - and after the approval of the board of directors, may seek the assistance of a non-executive board member - who is not members of the audit committee - or whomever it deems necessary to be experts or specialists in studying the issues that fall within its duties and responsibilities.

8- The committee's procedures controls

✓ **First: The terms of reference of the committee chairman and secretary**

- The chairman of committee undertakes the following tasks:
 - Managing committee meetings and working to enhance its effectiveness.
 - Representing the committee before the general assembly and the board of directors.
 - The committee chairman or whomever he delegates from among the committee members must attend the general assemblies to answer shareholders' questions.
 - Calling the committee to convene with specifying the time, date and place of the meeting, after coordination with the committee members.
 - Preparing the agenda, considering the topics that a committee member wishes to include.
 - Ensure that the topics presented to the committee are accompanied by sufficient information to enable the committee to take decisions regarding them.
 - Ensure that sufficient time is available to discuss the agenda items for the committee meeting.
 - Promoting the effective participation of members in the committee's meetings by studying and discussing issues on the agenda of its meetings, and by expressing their views in a manner that contributes to achieving the committee's goals.
 - Ensure that committee members are provided with complete and correct information in a timely fashion; To enable them to perform their duties.
 - Preparing periodic reports on the committee's activities and submitting its recommendations and findings to the Board of Directors.
 - Follow up on the implementation of the decisions issued by the committee.
 - Establishing the necessary arrangements for the periodic evaluation of the committee's performance.
- The duties of the committee secretary are as follows:
 - Coordinating committee meetings, and developing a proposal for its agenda, in coordination with the committee chairman.
 - Informing committee members of the meeting dates and providing them with its agenda, and the documents necessary to study the meeting items.
 - The secretary of the committee submits periodic reports and minutes about the activities and work of the committee to the board of directors and performs all other tasks that may be entrusted to him by the committee.
 - Attending and documenting committee meetings, preparing its minutes and keeping them in a special register.
 - Keeping documents, records and reports presented to or issued by the committee.
 - Aiding and advice to the committee in matters that fall within its competencies.
 - The committee secretary is not entitled to participate in or vote on any of the committee's decisions.

✓ **Second: The duties of a committee member**

- Comply with the provisions of the Companies Law, the Financial Market Law and their implementing regulations, the relevant regulations and the Company's Articles of Association when exercising its duties, and refrain from doing or participating in any act that harms the interests of the company.
- He should be aware of the committee's duties and responsibilities, and he must allocate sufficient time to fulfill his role in achieving them.
- Carry out his duties far from any external influence, whether from inside or outside the company and he must not place his personal interests ahead of the company's interests.
- Not accepting gifts from anyone who has business dealings with the company.
- Preparing for meetings and commitment to attend them and not be absent from them except for objective justifications notified to the committee chairman in advance and accepted by the committee.
- Effective participation in the committee's meetings by studying and discussing the topics on the agenda of its meetings.
- Work to enhance knowledge of organizational developments in the fields and topics related to the committee's duties and responsibilities.
- Work to enhance knowledge of developments in the field of the company's activities and business and other related fields.

✓ **Third: Committee meetings**

- The committee meets periodically, provided that its meetings are not less than (4) meetings during the financial year of the company, based on an invitation from its chairman, and the committee chairman must invite it to meet in exceptional cases, including, for example, if requested by the board of directors or two members of the committee Or the auditor or the director of the internal audit department, or if circumstances require that, with an explanation of the reasons for calling the extraordinary meeting.
- The committee approves the dates and agenda for the meetings of the fiscal year before its start, and the invitation to attend the committee's meeting at least 5 days before its date. The meeting's invitation shall be attached to the agenda, documents and information needed to discuss the topics presented to the committee's meeting and take decisions in their regard.
- In exceptional cases, an invitation may be directed to attend the meeting at least (3) days before its date, in accordance with the invitation procedures specified in these regulations.
- The committee holds its meetings in the company's head office, and it may meet outside the head office after the approval of the board of directors. It is also permissible to hold meetings of the risk committee through modern technical means of communication virtually according to any emergency circumstances that necessitate this based on the approval of the audit committee.

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- For the meeting to be valid, the attendance of the majority of the committee's members is required, and the committee member may - in cases of necessity - attend through the use of a modern technical means of communication, after the approval of the committee.
 - No member of the board of directors or executive management who is not a member of the committee is entitled to attend its meetings without an invitation from the committee to listen to his opinion or his advice.
 - The committee meets periodically with the auditor and the director of the internal audit department.
 - The decisions of the committee are issued by the majority of the votes of the attending members, and when the votes are equal, the side with which the chairperson voted shall prevail.
 - A member of the committee has the right to object to any decision taken by the committee, provided that his objection is explicitly proven in the minutes of the meeting with a statement of the reasons for his objection, and his absence from attending the meeting at which the decision is issued is not considered a reason for exemption from responsibility unless it is proven that he is not aware of the decision or is unable to directly object to it. After knowing it.
- ✓ **Fourth: Documenting committee meetings**
- The secretary of the committee prepares the minutes of the committee's meeting documentation, which include the following:
 - Place, date, start and end time of the meeting.
 - Names of the members present and not attending, indicating the names of those invited to attend the meeting who are not members of the committee.
 - The deliberations and decisions of the committee, with an indication of the results of the vote and the reasons for the objections, if any.
 - Determining the entity responsible for implementing the decisions taken, determining the time to initiate them, and the mechanism for following them up.
 - The secretary of the committee sends the draft minutes of the meeting to the members of the committee, and the members of the committee must make their comments on the draft minutes - if any - within a maximum period of (5) working days from the date of the transmission.
 - After processing the comments of the members of the committee on the draft of the minutes, and after the approval of the chairman of the meeting, the secretary of the committee sends the draft after amendment to the members of the committee in preparation for approval at the next committee meeting.
 - The meeting minutes attached to the meeting agenda and all accompanying documents are kept in a special register signed by the committee chairman and secretary.
- ✓ **Fifth: Follow up on the work of the committee**

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- The chairman of the committee submits its recommendations and its findings to the board of directors, in the first meeting of the board following the meeting of the committee.
- Sixth: Evaluating the committee's work
- The committee evaluates the results of its work periodically, provided that the evaluation elements include, for example, the effectiveness of the committee in carrying out the tasks assigned to it.

9- Report of the Committee to the General assembly

- The Audit Committee issues an annual report that includes its opinion on the adequacy of the company's internal control systems.
- The audit committee's report must include details of its performance of its competencies and tasks stipulated in the Companies Law and its implementing regulations, provided that it includes its recommendations and opinion on the adequacy of the company's internal and financial control and risk management systems.
- The board of directors must deposit sufficient copies of the audit committee's report in the company's head office and be published on the company's website and the website of the Capital Market Authority when disclosing the invitation to convene the general assembly; To enable shareholders who wish to obtain a copy of it and to read the summary of the report during the General Assembly.

10- Confidentiality of the Committee's Work

The member of the committee must abide by maintaining the confidentiality of the information made available to him and the documents he is acquainted with, and he is not permitted in any way - even if his membership is terminated - to disclose it to any individual or entity unless he is authorized to do so by the Board of Directors, or to use None of this information is to achieve a personal benefit for him, one of his relatives, or for others, and the company has the right to demand compensation in the event of a breach of .what is mentioned in this article, as this applies to the secretary of the committee

11- Conflict of Interest

- The member must avoid situations that lead to a conflict of his interests with the interests of the company and the conflict of interests means that there is a direct or indirect interest for any member in a topic on the committee's agenda, and that interest would influence (or believe the influence of that interest) on the independence of a member's opinion. The committee who is supposed to express his professional opinion.
- If a member has any conflict of interest in a topic on the committee's agenda, he must disclose that before the discussion of the topic begins, provided that this is proven in the minutes of the meeting. In this case, he may not attend the discussion of the relevant topic or participate in the discussion or vote on it.
- It is not permissible for a member of the committee to have a direct or indirect interest in contracts and business that are carried out for the company's account, and he may not participate in any work that would

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compete with the company or compete with the company in one of the branches of the activity that it is practicing.

- If a committee member fails to disclose his interest in the contracts and works that are carried out for the company's account, whether before his appointment as a member of the committee or during his membership, the company may claim before the competent judicial authority to annul the contract and compensation or to oblige the member to pay any profit or benefit achieved for him from that.
- If a committee member fails to disclose his participation in any business that would compete with the company or if he competes with the company in one of the branches of the activity that he is practicing, the company may claim compensation from him before competent judicial authority.
- It is not permissible for a committee member to exploit or benefit - directly or indirectly - from any of the company's assets, information, or investment opportunities subject to study - even if the decision is taken not to proceed with them - and he may not take advantage of these investment opportunities even after the end of his membership.
- In the event that the committee member is proven to have benefited from the investment opportunities, the company or any interested party may claim before the competent judicial authority to nullify any business, profit or benefit achieved from the investment opportunity. The company may also claim appropriate compensation.

12- Remuneration of Committee Members

- A member of the committee is entitled to an annual remuneration according to the remuneration policy for members of the board of directors, the committees emanating from it, and senior executives approved by the company's general assembly.
- The Board of Directors determines the remuneration and allowances that the secretary of the committee will receive for attending committee sessions.
- In the event that the General Assembly issued a decision to exempt a member from membership in the committee due to absence from three successive meetings within one year without an excuse accepted by the Board of Directors, this member is not entitled to any remuneration or compensation for the period following the last meeting he attended, and he must return all rewards and compensation that were disbursed Him about that period.
- The company has the right to claim compensation for damage to its reputation and recover the rewards, compensation and any other costs that the company incurred to facilitate the member's fulfillment of his responsibilities, in the event that the member commits an act that breaches honor and trust, fraud, or violates the laws and regulations in the Kingdom of Saudi Arabia or in any other country. Or when he breaches his responsibilities, tasks and duties, which will result in harm to the interest of the company.

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13- Review and update of the regulation

The regulation is subject to periodic review by the Board of Directors and the recommendation of the Audit Committee with the aim of developing and updating it in line with the relevant laws and regulations and in accordance with the Board's opinion. No amendment may be made to it except by a decision of the Board .of Directors, provided that it is submitted to the General assembly for approval

14- Disclosure

✓ **First: Disclosure of the role of the audit committee**

- A brief description of the terms of reference of the audit committee, stating the name of the committee, its chairman and members, the number of its meetings, dates of its convening, and the attendance data of members for each meeting.
- Recommendation of the audit committee regarding the need to appoint a director of the internal audit department in the company, in case he is not present.
- The recommendations of the audit committee that there is a conflict between it and the decisions of the board of directors, or which the board refused to take into account regarding the appointment and dismissal of the company's auditor, determining his fees and evaluating his performance, or appointing the director of the internal audit department, the rationale for those recommendations, and the reasons for not taking them into account.

✓ **Second: Disclosure of the Audit Committee**

The Board of Directors must disclose in its annual report the details of these regulations and the mechanisms for determining the remuneration of the members of the audit committee, and the amounts and financial and in-kind benefits paid to each member of the committee in exchange for .any executive, technical, administrative or advisory work or positions

15- Implementation

- The regulation shall be effective from the date of its approval by the General Assembly, and the responsibility for its implementation with the Board of Directors and the Audit Committee.
- The Board of Directors - with the support of the Audit Committee - reviews this regulation periodically to ensure its suitability to the changes that may occur to the nature of the company's business, its strategic objectives, relevant legislation and regulations and the recommendation to the General Assembly in this regard.
- This regulation is complementary to articles of association of the company, the corporate governance system, and the policies approved by the company pertaining to the Board of Directors and the committees emerging from it.
- All that is not provided for in this regulation to apply the relevant laws and regulations issued by the competent authorities.

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- This regulation cancels and replaces all procedures, decisions and internal regulations of the company that contradict it.

