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Attn: The Nomination and Remuneration Committee, FIPCO

Greeting.

The Audit Committee Summery Report for 2020

The Audit Meeting has been taken place 6 times during the fiscal year 2020, and the main purposes of these meetings focused on the following:

- 1- Discussing, reviewing and recommending to the board for the interim quarterly financial statements along with the annual consolidated financial statements for the fiscal year 2020.
- 2- Reviewing the progress of implanting the internal audit plans for the year ended Dec. 31, 2019 and discussing the proposed internal audit plans for the fiscal year 2020 in light of the approved strategic Audit Plans (2019- 2021).
- 3- Looking into the audit plan proposed by the internal auditor, commenting, approving and following the implementation progress.
- 4- Discussing internal audit reports according to the approved audit plans, recommending to the management with the suggested solutions and required corrective actions that may cover the major points arising from these reports, assuring that the high risky points must be handled through adopting proper and adequate controlling systems to measure the risks in general as well as urging the company to create aware work environment considering the risk management and how to mitigate efficiently.
- 5- Discussing internal audit reports for the subsidiary (FPC Industries Co.) with the executive management, and submitting their recommendations accordingly to set a system by which the company can control the assets, purchases and all other transactions, as well as setting policies and procedures for all departments to cope up with rules and regulations and avoid conflict of interest.
- 6- Recommending to assign an internal auditor, propose his benefits and evaluate his performance periodically after the position was being vacant on Aug. 2020.
- 7- Reviewing the performance of the current external auditor (Alkheriji) and assuring that there are no obstacles or scope limitations, with an emphasis on smooth work progress and obtaining the required reconciliations and ensuring the implementation of the relevant regulations.
- 8- Assuring that auditors are familiar with the International Financial Reporting Standards (IFRS) when carrying out the audit work, with guidance from the transparency report issued by the Saudi Organization for Certified Public Accountants, in addition that making sure that





the nominated auditors obtain a "CMA" license before submitting the recommendation to the General Assembly.

9- Reviewing and studying the External Audit proposal and fees. According to the article 81 of corporate governance regulations issued by CMA, two candidates (Alkharashi & Alkheraiji) have been nominated and recommended for the general assembly to select one of them to audit the financial statement of the 2nd & 3rd quarters of 2020, the annual consolidated financials for the fiscal year 2020, and the interim financial statements for the 1st quarter of 2021.

10- Recommending to the management of the company and the auditor to put in place the accounting treatment for the company's acquisition of minority rights in the subsidiary (FPC) in accordance with the relevant IFRS, with an emphasis on finalizing the accounting settlement entries in an accurate and early so that this does not affect the delay in issuing the financial statements on time.

11- Consider the IT Audit report submitted by the auditor, and make the necessary recommendations to the management to address deficiencies and improve the control environment.

12- Recommending to the management to study the provision for expected credit losses on a quarterly basis after entering all settlements or closed cases and using the statistical approach compatible with IFRS, taking into account the existence of logical harmony according to the nature of activity and credit relations with customers.

13- Reviewing and discussing the study prepared by the management for COVID 19 impacts on the company's activities, in addition to reviewing the initiatives and precautionary measures taken by the management to maintain the health and safety of workers and ensure the progress of work in accordance with the preventive measures and procedures issued by Relevant official bodies.

14- Urging the management to follow up on the support programs and initiatives provided by the government of the Custodian of the Two Holy Mosques to mitigate the economic effects of COVID 19, and to study how to get benefits and support for the company's activities and the continuity of its business.

15- Recommending to the management to take into account the marketing tools and measure the financial impact before granting warranties on products in a way that balances the application of accounting standards, potential legal obligations, and sales and marketing purposes.

16- Recommending to the management to give more consideration for collecting customer debts and not to slow down to meet the company's cash needs in a way that reduces the need to borrow and burden the company with financial loans, with ongoing follow-up of accounts receivable balances, with the recommendation to the company's management to



establish written contractual relationships with clients who are granted credit facilities. It is also recommended to regularly review the list of clients who were previously granted these facilities and to take appropriate guarantees, and to urge the auditor to review these balances and contracts periodically.

17- Recommending to the management to reconsider its inventory counting procedures and to compare between the standard and actual costs periodically to avoid inventory accumulations with the recommendation to develop practical solutions that all departments of the company adhere to.

18- Recommending to the management to save no effort to develop appropriate solutions to ensure the effectiveness of the inventory procedures to address the weaknesses in accordance with the guidance of the internal audit unit.

19- Recommending to the board to consider the risks related to the high debt ratio and the arrangements for settling loans that was borrowed to finance the subsidiary, while making sure that this is in line with the company's comprehensive strategy, the main business plans and the company's policy in risk management, all of them is an integral part of the basic board functions.

20- Following the implementation of the approved whistle blowing policy and ensure its application by conducting an independent investigation commensurate with the size of the error or excess - if any - and adopting appropriate follow-up procedures, in line with Article 58 of the Corporate Governance Regulations issued by CMA. During 2020, the committee was not aware of any remarks or mistakes in financial or non-financial reports. Moreover and the committee also recommended the internal auditor to republish the means of communication and raise awareness for all employees.

Based on the above along with the work carried out by the internal audit unit according to the approved audit plans during 2020, and the observations of the external auditor, taking into account that any internal control system, regardless of the level of integrity of its design and implementation of its procedures, cannot be Provides absolute assurance about the effectiveness of applicable internal control systems.

Accordingly, the audit committee did not discover that there is a fundamental weakness in the internal control procedures in place, with the continuation of the audit committee's recommendation to the company's management to continuously monitor the development and improvement of the efficiency and effectiveness of the applicable internal controls and the need for ongoing updating of the company's policies and procedures, and the implementation of the observations received from the committee regarding the internal audit reports coping up with the nature of the company's activity. As well as considering the subsidiary (FPC) and what the early stages of the start of the subsidiary's activity require in terms of continuous evaluation of all the subsidiary's activities in terms of operational, financial, compliance and risk management.