



Audit committee
report for the fiscal
year

2021

26-05-1443H

30-12- 2021G

Attn: FIPCO SHAREHOLDERS

Greeting.

The Audit Committee Report for 2021

The Audit Meeting has been taken place 5 times during the fiscal year 2021, 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, however the the annual consolidated financial statements for the fiscal year 2021 will be discussed by the new audit committee that will be approved by the AGM, as the old committee's session has expired.
2. Approving and reviewing the progress of implanting the internal audit plans for the year ended Dec. 31, 2021.
3. 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-risk 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.
4. 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.
5. appraisal of the internal auditor performance and propose his remuneration considering the market salary for this role.
6. 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.
7. 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.

8. Reviewing and studying the External Audit proposal and fees. According to the article 81 of corporate governance regulations issued by CMA, three candidates (Alkharashi & Alkheraiji & Baker Telly) 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 2021, the annual consolidated financials for the fiscal year 2021, and the interim financial statements for the 1st quarter of 2022.
9. 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 accurately, especially the interest of contingent liability against non-controlling interest acquisition in accordance with the relevant accounting standards.
10. Verifying the works to be done by the management and the external auditors in terms of cutting off dates and applying the standards of revenue recognition.
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, considering 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 dramatic changes in the main raw materials prices which directly reflects on the contractual agreements, and making sure the relevant IFRS are applied.
16. Recommending to the management to take the required actions (technically and accounting) on an urgent basis in order to issue the electronic invoices to cope up with the relevant regulatory instructions.
17. 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.

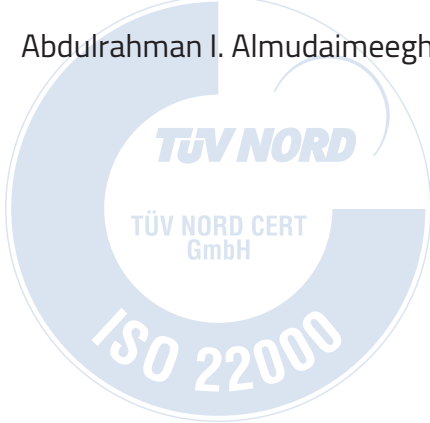
18. Recommending to the board of directors to consider the risks related to the high debt ratio and the arrangements for settling loans that was borrowed to finance the subsidiary, while making sure that this is in line with the company's comprehensive strategy, the main business plans and the company's policy in risk management, all of them is an integral part of the basic board functions.
19. 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 2021, 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 2021, 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 system 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.

Audit Committee member

Abdulrahman I. Almudaimeegh



Audit Committee member

Fawzi I. Alhobayeb



SAUDI
MADE

Audit Committee member

Abdulaziz S. Alatiqi

