



شركة مكة للإنشاء والتعمير

شركة مساهمة سعودية

## **Annexes to meeting items**

### **Ordinary General Assembly**

**(thirty-five)**

**Monday 29/7/1444 AH**

**Corresponding to 20/2/2023 AD**

# Report of the Audit Committee of Makkah Construction and Development Company

## The Adequacy of the Company's Internal Control System for the short Hijri year ending on 14/11/1443 AH

Reference to Article (104) of the Companies Law, and Paragraph (1) of clause Two (Internal Audit) of the tasks and responsibilities of the Committee in the Regulations of the Audit Committee approved by the thirty-third ordinary general assembly on 26/08/1441 AH, which states: [Studying and reviewing the company's internal and financial control and risk management systems, and preparing a written report that includes its recommendations and opinion on the adequacy of these systems and the work they performed that fall within the scope of their competence].

Given the importance of the company's internal control system, which examines and evaluates the financial, administrative and operational activities in order to provide accurate information to management at all levels to implement its strategy correctly, as well as assess the risks that the company may face and follow up how to treat them.

The Audit Committee of Makkah Construction and Development Company reviewed the company's internal control system and considers that it meets the purpose of auditing the company's various activities, whether financial or operational, through the company's internal audit department.

It also reviewed the periodic reports issued by the company's internal audit department and considers that it does not include negative material observations on the company's financial and operational activities.

Whereas, the members of the committee are keen on increasing the transparency factors of the company's internal control system, it has suggested contracting with an external auditing office to carry out the company's internal audit as well as reviewing the work policies and procedures of the company's internal audit department and updating its work.

The committee also made several suggestions to increase the strength of the company's internal control, including, for example:

- Emphasizing the continuous updating of the company's policies, regulations and organizational structures.
- Take advantage of modern technology in the management of the company.
- Continuous updating of the company's vision, mission and objectives.
- Continuing to work with the estimated budgets of the company's various sectors after being approved by the authorized signatory.

The committee also reviewed the report of the company's external auditor, who carried out the audit work in accordance with the international standards of auditing approved in the Kingdom of Saudi Arabia.

The committee found the following in his report:

- In our opinion, with the exception of the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the company's financial position as on Dhul Qi'dah 14, 1443 AH, and its financial performance and cash flows for the short period from Jumada I 1, 1443 H until Dhul Qi'dah 14 1443 AH In accordance with the International Financial Reporting Standards approved in the Kingdom of Saudi Arabia, and other standards approved by the Saudi Organization for Auditors and Accountants.

The basis for the qualified opinion in the auditor's report is as follows:

- 1- As of Dhu al-Qi`dah 14, 1443 AH, and as disclosed in note (11) to the attached financial statements, trade receivables amounted to 144.4 million Saudi riyals, with an allowance for expected credit loss of 299 million Saudi riyals. We have requested sufficient supporting documents to verify the accuracy of the financial statements used in calculating expected credit losses, but we have not received this. Therefore, we are not satisfied with the valuation of the trade receivables balance. Accordingly, we were unable to determine whether it was necessary to make any adjustment to the provision

for expected credit losses, as well as the company's business results for the current period and the comparative year, and to disclose the related credit risks.

- 2- As of Dhu al-Qi`dah 14, 1443 AH, amounts due from related parties include an amount due from Jabal Omar Development Company in the amount of 309.6 million Saudi riyals, as disclosed in note (0 1). The management has not made any assessment to determine the expected credit loss related to this balance as at the date of the financial report, nor for the previous periods presented, which is considered contrary to the International Financial Reporting Standards approved in the Kingdom of Saudi Arabia. If the management made an assessment to determine the expected credit losses in accordance with the requirements of International Financial Reporting Standards approved in the Kingdom of Saudi Arabia, this may result in a material impact on some elements in the accompanying financial statements, including the comparative figures, with the related disclosures. The potential impact on the financial statements for the current period or for previous periods has not been specified.
- 3- As of Dhu al-Qi`dah 14, 1443 AH, accrued expenses and other current liabilities include advance payments from customers with a net amount of SAR 28.4 million. We have requested relevant details and analysis as well as supporting documentation to understand how this balance initially arose and to determine the accuracy and reasonableness of transactions and balances, but we did not receive this. Therefore, we could not be satisfied with the origin, nature and completeness of the transactions, this account, and the balances in any other related accounts. Accordingly, we were unable to determine whether any adjustments were needed to these financial statements, including the opening balances.
- 4- As of Dhu al-Qi`dah 14, 1443H, the accompanying financial statements include value-added tax payable and expenses payable of SAR 32.7 thousand and SAR 18.7 million, respectively, and revenue costs of SAR 103.1 million for the period ended on that date. These balances and some other accounts from an account titled "Current Account Balance" were affected by adjusting amounts totaling SAR 36.9 million, SAR 6.7 million and SAR 2.2 million, respectively. We have requested any explanations and

any supporting documents to understand how the balances initially originated and to be satisfied with the origination, accuracy and reasonableness of the adjustments and the transactions and balances affected by such adjustments, but we did not receive this. Accordingly, we were unable to determine whether any adjustments were required to be made to these accounts and the related impact on these financial statements, including the opening balances.

The committee also studied the risks that the company may face through the external auditor's report. After studying these risks, whether liquidity risks, credit risks or currency risks, the committee considers that they do not threaten the company's activities. The company should seek to diversify its short and long-term investments as one of the strategic alternatives to face any future risks.

Since the members of the Audit Committee are keen to study the risk factors that may face the company in the future, it urges the company's board of directors to continuously review the risks and explore the factors of these risks and find appropriate scientific and practical solutions to them, to reduce the effects of these risks on the company (if any).

### **In conclusion:**

The Audit Committee confirms that it periodically reviews and audits the company's internal control system and procedures, as well as the extent of the effectiveness of this control over the company's financial, administrative and operational activities to reach the best levels of necessary control, and that it presents appropriate suggestions for its development.

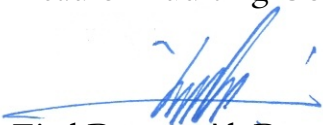
The committee also clarifies that the company's internal control system has been prepared on a sound basis and is being implemented effectively, and that there are no significant notes reached by the committee during its review.

Through the reports of the company's internal audit department during the fiscal year for the short Hijri year ending on 14/11/1443 AH, which were submitted to the audit committee, the audit committee found the following:

- 1- It was ascertained that there were no material observations affecting the performance of the work or the financial reports.
- 2- It was ensured that the company's workflow is carried out in accordance with the regulations and controls regulating the work.
- 3- The company's implementation of international accounting standards has been confirmed.

Board Member

Head of Auditing Committee



Ziad Bassam Al-Bassam



# شركة مكة للإنشاء والتعمير

شركة مساهمة سعودية

مركز فقيه التجاري / العزيزية / مكة المكرمة

الرقم ..... المرفقات : .....

التاريخ .....

## The Chairman of the Board of Directors' notification to the shareholders of Makkah Construction and Development Company of the thirty-fifth Ordinary General Assembly

((A statement of the business and contracts concluded between the company and the members of the board of directors in which they have an interest.))

During the fiscal year (the short Hijri year ending on 14/11/1443 AH corresponding to 13/06/2022 AD)

- 1) Lease contract in the name of (Mr. Ziad Bassam Muhammad Al-Bassam, member of the Board of Directors) for a 16 m<sup>2</sup> exhibition in the commercial center, with an annual rent of 201,156 riyals during the period from 03/04/2022 up to 31/12/2022.
- 2) A lease contract in the name of Anas Muhammad Salih Serafi Est., brother of Mr. Hamza Muhammad Salih Serafi (Vice Chairman of the Board of Directors), for a 16 square meter gold store with a rent of 216,575 riyals during the period from 03/04/2022 AD to 31/12/2022 AD

Best regards

Chairman of Board of Directors

Ahmed Abdul Aziz Al-Hamdan



## **INDEPENDENT AUDITOR'S LIMITED ASSURANCE REPORT TO THE SHAREHOLDERS OF MAKKAH CONSTRUCTION AND DEVELOPMENT COMPANY (A SAUDI JOINT STOCK COMPANY)**

### **Scope**

We have been engaged by Makkah Construction and Development Company (Saudi joint stock company) (the "Company") to perform a 'limited assurance engagement,' as defined by International Standards on Assurance Engagements endorsed in the Kingdom of Saudi Arabia, here after referred to as the engagement, to report on the declaration as attached in (Appendix 1), which was prepared by the Chairman of the Board of Directors (the "BOD") of the Company to be submitted to the Ordinary General Assembly Meeting, in respect of the transactions and contracts in which any of the members of the BOD of the Company has a direct or indirect personal interest, occurred during the period from 1 Jumada Al-Ula1443 H to 14 Dhu Al-Qi'dah1443H ("**Subject Matter**"), in order to comply with the requirements of Article (71) of the Companies' Law issued by Ministry of Commerce ("MOC") (1437H -2015).

### **Criteria applied by the Company**

In preparing the Subject Matter, the Company applied the following criteria ("Criteria"). Such Criteria were specifically designed in order to comply with the requirements of Article (71) of the Companies' Law; As a result, the subject matter information may not be suitable for another purpose.

1. Article (71) of the Companies' Law issued by Ministry of Commerce ("MOC") (1437H - 2015).
2. Declaration submitted by the Chairman of the BOD to the Ordinary General Assembly Meeting (Appendix 1).
3. The declarations submitted by the members of the Company's BOD in respect to the transactions and contracts in which any of the members of the Company's BOD has a direct or indirect personal interest.
4. The Company's accounting records for the period from 1 Jumada Al-Ula1443 H to 14 Dhu Al-Qi'dah1443H.

### **Management's responsibilities**

The Company's management is responsible for selecting the Criteria, and for presenting the Subject Matter in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the Subject Matter, such that it is free from material misstatement, whether due to fraud or error.

### **EY's responsibilities**

Our responsibility is to express a conclusion on the presentation of the Subject Matter based on the evidence we have obtained.





**INDEPENDENT AUDITOR'S LIMITED ASSURANCE REPORT  
TO THE SHAREHOLDERS OF MAKKAH CONSTRUCTION AND DEVELOPMENT COMPANY  
(A SAUDI JOINT STOCK COMPANY) (continued)**

**EY's responsibilities (continued)**

We conducted our engagement in accordance with the International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information ('ISAE 3000 (Revised)') endorsed in the Kingdom of Saudi Arabia, and the terms of reference for this engagement as agreed with the Company on 8 January 2023. Those standards require that we plan and perform our engagement to express a conclusion on whether we are aware of any material modifications that need to be made to the Subject Matter in order for it to be in accordance with the Criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

**Our Independence and Quality Control**

We have maintained our independence and confirm that we have met the requirements of the professional code of conduct and ethics that are endorsed on Kingdom of Saudi Arabia, and have the required competencies and experience to conduct this assurance engagement.

EY also applies International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Description of procedures performed**

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

**INDEPENDENT AUDITOR'S LIMITED ASSURANCE REPORT  
TO THE SHAREHOLDERS OF MAKKAH CONSTRUCTION AND DEVELOPMENT COMPANY  
(A SAUDI JOINT STOCK COMPANY) (continued)**

**Description of procedures performed (continued)**

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the subject matter and related information and applying analytical and other appropriate procedures.

Our procedures included:

- Obtaining the BOD Chairman's declaration that includes the financial information about the transactions and contracts in which any of the members of the Company's BOD has a direct or indirect personal interest, occurred during the period from 1 Jumada Al-Ula1443 H to 14 Dhu Al-Qi'dah1443H, according to the requirements of Article (71) of the Companies Law (Appendix 1).
- Obtaining the BOD resolution that indicate the BOD member's notification to the BOD in the transactions and contracts for the period from 1 Jumada Al-Ula1443 H to 14 Dhu Al-Qi'dah1443H.
- Obtaining the declarations submitted by the Company's BOD in respect to the transactions and contracts in which any of the members of the Company's BOD has a direct or indirect personal interest.
- Comparing the financial information in Appendix 1 to the Company's accounting records for the period from 1 Jumada Al-Ula1443 H to 14 Dhu Al-Qi'dah1443H.

We also performed such other procedures as we considered necessary in the circumstances.

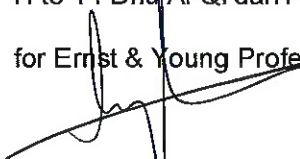
**Other Matters**

The attached (Appendix 1) has been stamped by us for identification purposes only.

**Conclusion**

Based on our procedures and the evidence obtained, we are not aware of any material modifications that need to be made to the Subject Matter for the period from 1 Jumada Al-Ula1443 H to 14 Dhu Al-Qi'dah1443H, in order for it to be in accordance with the Criteria.

for Ernst & Young Professional Services

  
Abdullah Ali AlMakrami  
Certified Public Accountant  
License no. 476

Jeddah: 18 Jumada Al-Thani 1444H  
11 January 2023G

