



AUDIT AND RISK MANAGEMENT COMMITTEE CHARTER



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THE CHARTER OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

1. INTRODUCTION

The Audit and Risk Management (ARM) Committee plays an important role in providing oversight of the organization's internal and external audit, risk management, and internal control practices. This oversight mechanism also serves to provide confidence in the integrity of these practices. The ARM committee performs its role by providing independent oversight to the Board and Privatization and Corporatization Board (PCB).

1.1. Scope

This charter governs the operation of the ARM Committee of the Board of IAS and details the Committee's responsibilities and how it would carry out those responsibilities. The ARM committee is to assist the board in the discharge of its responsibilities with regard to safeguarding the Company and the Company's assets, maintenance of accounting records and maintenance of an effective system of control.

1.2. Purpose

1.2.1. The purpose of the ARM Committee is to provide additional assurance to the Board regarding a structured, systematic oversight of the organization's internal and external audit practices, risk management, internal control practices, and the quality and reliability of the financial information used by the Board and financial statements issued by the company. The committee assists the Board and Management by providing advice and guidance on the adequacy of the organization's initiatives for:

- Values and ethics
- Risk profile and risk management of the company
- Internal control framework
- Oversight of the internal audit activity, external auditors, and other providers of assurance
- Financial statements and public accountability reporting

1.2.2. In broad terms, the ARM Committee reviews each of the items noted above and provides the board with independent advice and guidance regarding the adequacy and effectiveness of management's practices and potential improvements to those practices.





1.3. Constitution

The ARM Committee has been established by the Board of Directors on 03rd February 2021 to act in the capacity of an audit and risk management committee in respect of the company and thereby to assist the Board with regard to matters set out in this charter.

1.4 Composition

- 1.4.1. The ARM Committee shall be appointed by the Board among the Non-Executive Directors of the Board and shall consist of not less than three members.
- 1.4.2. The ARM Committee shall be constituted by a resolution of the Board.
- 1.4.3. Directors will be appointed to the ARM Committee for a term of two years and continuance of ARM Committee members shall be reviewed annually.
- 1.4.4. The Board shall appoint a Chairperson to the Committee.
- 1.4.5. In the absence of the Chairperson of the Committee, another member of the Committee shall be elected as the chairperson for any particular meeting.
- 1.4.6. Each ARM Committee member will be both independent and financially literate. At least one member shall be designated as the financial expert, as defined by Company act of the Maldives.
- 1.4.7. The members should collectively possess sufficient knowledge of audit, specific industry knowledge, law, risk and control.
- 1.4.8. The main board has to concur with any termination of the services of a person serving on the ARM Committee.

1.5 ARM Committee Meetings

1.5.1. Meeting frequency

- a) The ARM Committee may meet as it deems necessary, but not less than once in every quarter.
- b) Any ARM Committee member or the secretary may call for a meeting of the ARM Committee with the approval of the by Chairperson of the Committee, at any time to consider any matters falling within this charter.
- c) A notice of each meeting confirming the date, time, venue and agenda shall be forwarded to each member of the ARM Committee.
- d) The committee will hold private meetings with auditors and executive sessions (see below 1.5.6).

1.5.2. Agenda

- a) The Secretary of the ARM Committee, in consultation with the Chairperson is responsible for drawing up a meeting agenda with supporting documentation and its circulation.
- b) Members of the Committee may suggest agenda items for the meetings to the Chairperson





- c) The agenda and supporting agenda papers are to be distributed at least 72 hours prior to each meeting.
- d) In case of urgent meetings, the committee members may unanimously agree to waive the notice period.

1.5.3. Minutes

- a) A secretary must be appointed to attend and minute all ARM committee meetings.
- b) The minutes of the committee meetings shall be completed within seven days of such meeting and shall be circulated to all members of the committee and other relevant personnel as directed by the committee.

1.5.4. Quorum

- a) The Quorum for a Committee meeting shall be two members.

1.5.5. Attendance

- a) ARM Committee members and if/when required a senior representative of external audit, the Head of Internal Audit Department, the Managing Director, the Chief Finance Officer (CFO), Department Heads and any other senior members of management may be invited to attend ARM Committee meetings.
- b) The committee may invite any other relevant person to attend committee meetings.

1.5.6. Executive sessions

- a) The audit committee will schedule and hold if necessary, a private session with the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the CIA, external assurance providers, and with any other officials that the audit committee may deem appropriate at any of its meetings.

1.6 Secretariate

- 1.6.1. The secretariate role of the committee lies with the Company Secretary who shall be responsible, in conjunction with the Committee Chairperson, for drawing up the agenda and circulating the Committee papers prior to each meeting.
- 1.6.2. The Minutes of each Committee meeting should be prepared and with prior circulation to the Committee members should have to be finalized and attended to adoption in the following meeting of the Committee.





2. PRIMARY RESPONSIBILITIES

2.1. Independent, objective advice on the adequacy of management's arrangements

- 2.1.1. The establishment of an ARM charter to guide the audit approach, its modus operandi, which should spell out the rules that govern the audit relationship.
- 2.1.2. Assess the process and the result relating to the company's risk and control environment.
- 2.1.3. Oversee the financial reporting process.
- 2.1.4. Evaluate and coordinate the internal and external audit process.
- 2.1.5. Foster and improve open communication and contact among relevant stakeholders in the company and group of companies.
- 2.1.6. Monitor the compliance of the company with legal requirements and the company's code of conduct.
- 2.1.7. The ARM Committee must to report and make recommendations to the main board but the main board retains responsibility of implementing such recommendations.
- 2.1.8. Review the company and group's strategic plan and strategic management process.
- 2.1.9. Review the company and group of companies interim and annual reports.
- 2.1.10. Review the accounting policies adopted by the company, group of companies and proposed changes there to.
- 2.1.11. Review the adequacy of insurance coverage.
- 2.1.12. Review the adequacy of the Disaster Recovery and Business Resumption plan
- 2.1.13. Consider any other matters which may be referred to committee by board from time to time.
- 2.1.14. Periodic review and update the charter, at least annually, or as conditions dictate.

2.2. Risk Management

- 2.2.1. Annually review the organization's Risk Profile.
- 2.2.2. ARM committee must facilitate risk assessments to determine the material risk to which the company can be exposed and to evaluate the strategy for managing those risks.
- 2.2.3. Use the risk management strategy to prioritize and direct the audit effort, and to determine the skills required to manage these risks.
- 2.2.4. Obtain from the CIA an annual report on management's implementation and maintenance of an appropriate enterprise wide risk management process.
- 2.2.5. Provide oversight on significant risk exposures and control issues, including fraud risks, and other matters needed or requested by senior management and the board.
- 2.2.6. Provide oversight of the adequacy of the combined assurance being provided.





- 2.2.7. Review and provide advice on the risk management process established and maintained by management and the procedures in place to ensure that they are operating as intended.
- 2.2.8. Review whether the roles and responsibilities of the Risk Management Committee, as stated in its charter, are effectively achieved

2.3. External Audit

- 2.3.1. Review the fees and other compensation to be paid to the external auditor on an annual basis if required.
- 2.3.2. Review and discuss with external auditor all significant relationships the auditors have with the company to determine the auditor's relationship.
- 2.3.3. Periodically consult with the external auditor about internal controls, the completeness and accuracy of the company and its group of company's financial statements.
- 2.3.4. Review external auditor reports to ensure that, prompt action is taken by management in respect of those reports.
- 2.3.5. Review any specific disagreement among management and external auditor in connection with any external audit report.
- 2.3.6. Evaluate the performance of external auditor.

2.4. Internal Audit

- 2.4.1. Internal Audit objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- 2.4.2. ARM Committee should develop efficient internal audit procedures and establish an internal audit function that is monitored by and reports directly to the board and to the ARM committee or the equivalent corporate organ.
- 2.4.3. Should have internal auditors; and to ensure their objectivity and ability to provide key information to the Board, they should report directly to the ARM committee.
- 2.4.4. The authority, responsibilities and the position of internal audit should be detailed in an Internal Audit Charter and should be approved by the Chairperson of the ARM Committee. Such a charter, amongst others, should incorporate the provisions stated in this section of the Code.
- 2.4.5. Review with management and the chief internal auditor, activities, staffing, and organizational structure of the internal audit function.
- 2.4.6. Review the internal audit reports and management's response and have final authority to review and approve the annual audit plan and all major changes to the plan.
- 2.4.7. Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the chief internal auditor.





- 2.4.8. At least once a year, review the performance of the Chief Internal Auditor and concur with salary adjustment if required.
- 2.4.9. Ensure the internal auditor maintains its independence.
- 2.4.10. Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' International Professional Practices Framework for Internal Auditing consisting of the Definition of Internal Auditing, Code of Ethics and the Standards.
- 2.4.11. On a regular basis, meet separately with the Chief Internal Auditor to discuss any matters that the ARM Committee or internal audit believes should be discussed privately.
- 2.4.12. Ensure internal audit complies with the relevant rules and regulations

2.5. Ethical and Legal Compliances

- 2.5.1. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- 2.5.2. Review the findings of any examinations by regulatory agencies, and any auditor.
- 2.5.3. Review the process for communicating the code of conduct to company personnel, and for monitoring compliance therewith.
- 2.5.4. Obtain regular updates from management and company legal counsel regarding compliance matters.
- 2.5.5. Review compliance with laws, regulations (Including company act), ethics, policies and rules.
- 2.5.6. Review significant cases of employee conflict of interest, misconduct, or fraud and the resolution of the cases.
- 2.5.7. Review internal auditors report concerning any compliance review.
- 2.5.8. Review periodically the company's code of conduct and ensure the management has established a system to enforce this code.
- 2.5.9. Review management's monitoring of compliance with the company's code of conduct.
- 2.5.10. Ensure that management has proper review system in place to ensure that any activities, reports and other financial information deiminated meets legal requirement.
- 2.5.11. Review with the company's counsel any legal matter that could have significant impact to the company.
- 2.5.12. Perform any other activities consistent with this charter, as the committee or the main board deems necessary or appropriate





2.6. Financial reporting process

- 2.6.1. Evaluate the financial statement of the company for reliability, completeness and accuracy, prior to issue and approved by the board.
- 2.6.2. Review the integrity of financial statement reporting processes in consultation with external auditors and the internal auditors.
- 2.6.3. The quality and appropriateness of the company's financial accounting policies as applied in its financial reporting in consideration and opinion of external auditor.
- 2.6.4. Evaluate the performance management in terms of financial reporting.
- 2.6.5. Consider and approve, appropriate major changes to the company's and its group's auditing and accounting principles and practices as suggested by external auditor, the management or the internal audit department

2.7. Internal Control

- 2.7.1. Understand the company's key risk areas and the internal control structure. The committee should monitor the control process through the results of audits executed by the internal and external audit functions.
- 2.7.2. The monitoring includes internal and external reviews of the adequacy and effectiveness of the company's internal control structure and the quality of performance in carrying out assigned responsibilities.
- 2.7.3. It also includes the extent to which resources are utilized in an efficient and economical manner and that programs are carried out as planned.
- 2.7.4. Report on the effectiveness of internal control in the annual report of the company.
- 2.7.5. Consider the effectiveness of the company's internal control system, including information technology security and control.
- 2.7.6. Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.





3. AUTHORITY

The ARM Committee charter sets out the authority to carry out the responsibilities established for it by the board as articulated within the ARM Committee charter. The ARM Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- 3.1. Appointment, compensate, and oversee the work of any registered accounting firm or organization by Island Aviation Services Ltd.
- 3.2. Resolve any disagreements between management and the auditor regarding financial reporting.
- 3.3. Pre-approve all auditing and non-audit services.
- 3.4. Retain independent committees, accountants, or others to advise the ARM Committee or assist in the conduct of an investigation.
- 3.5. The ARM committee is entitled to receive any explanatory information that it deems necessary to discharge its responsibilities and have unrestricted access to members of Management, Employees, and relevant information it considers necessary to discharge its duties.
- 3.6. The ARM committee has unrestricted access to records, data, and reports. If access to requested documents is denied due to legal or confidentiality reasons, the ARM Committee and/or Chief Internal Auditor (CIA) will follow a prescribed, Board approved mechanism for resolution of the matter.
- 3.7. The ARM Committee may engage independent counsel and/or other advisors it deems necessary

4. REPORTING PROCEDURES

- 4.1. The ARM committee must report and make recommendations to the Board, but the Board retains responsibility for implementing such recommendations.
- 4.2. Report to the Board of directors about committee activities, issues, and related recommendations.
- 4.3. Provide an open avenue of communication between internal audit, the external auditors, and the board of directors.
- 4.4. Report annually describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.
The report shall include;
 - 4.4.1. A summary of the work the ARM Committee performed to fully discharge its responsibilities during the preceding year.
 - 4.4.2. A summary of management's progress in addressing the results of internal and external audit engagement reports.





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- 4.4.3. An overall assessment of management's risk, control, and compliance processes, including details of any significant emerging risks or legislative changes impacting the governing organization.
- 4.4.4. Details of meetings including the number of meetings held during the relevant period and the number of meetings each member attended.
- 4.4.5. Provide information required, if any, by new or emerging corporate governance developments.
- 4.4.6. The committee may report to the Board, and PCB at any time regarding any other matter it deems of sufficient importance.
- 4.5. Review any other reports the company issues that relate to committee responsibilities.
- 4.6. All Minutes of the Committee meetings shall be adopted by the Committee.





5. MEMBER SKILLS AND TRAINING

- 5.1. An ARM Committee's effectiveness in performing its mission depends on its members knowledge and competence in business matters, financial reporting, internal controls and auditing.
- 5.2. Every member should have experience in some area pertinent to the business, and at least one member should be familiar with the Aviation Industry and Group of Company's Industry.
- 5.3. All members have financial literacy, i.e. the ability to read and understand financial statement of Island Aviation and group financial statement.
- 5.4. Minimum one member, usually the chairperson should have a solid background in finance, accounting, or auditing to be able to act as guide the committee during the technical discussions.
- 5.5. All members should be communicating with management and the auditors, ready to ask probing questions relating to the financial risks and accounting.
- 5.6. The management, the external auditor and the internal auditors are sources for the background information and training an ARM committee member need.
- 5.7. A training program that enhances the, risk management and financial literacy of members should be in place.
- 5.8. New members to the IAS ARM Committee should receive a complete orientation that allows them function effectively from the very long beginning.





6. SELF ASSESSMENT

- 6.1. The ARM Committee should conduct continual self-assessment or self-evaluation.
- 6.2. The committee chairperson should assess the performance of individual committee members, and the board should evaluate the committee's chairperson based on following factors.
 - 6.2.1. Expertise on Airline and Aviation industry.
 - 6.2.2. Inquiring attitude, objectivity and independence.
 - 6.2.3. Judgments
 - 6.2.4. Understanding of Island Aviation Services and group of companies.
 - 6.2.5. Understanding of responsibilities and commitment to the committee's duties.
 - 6.2.6. Timely responses to the subjective matters.
 - 6.2.7. Attendance at the ARM Committee meetings.
- 6.3. Input from the Island Aviation Management, its Internal Audit and External Audit should form part of the ARM Committee evaluation.
- 6.4. After completing the evaluation, the ARM Committee should review results with the Board directors for the appropriate action can be taken on any recommendations resulting from the review.

7. CONFIDENTIALITY

- 7.1. The committee members are obliged to disclose any interest they have within the company or its group of companies that might interfere with their performance of the duties.
- 7.2. Any company or group of companies related information that comes to light during their performed of duties must be kept confidential. This information can only be disclosed to the main board or statutory board on request.





ENDORSEMENT

Document Title: Audit and Risk Management Committee Charter

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