



# TERMS OF REFERENCE

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AUDIT AND RISK COMMITTEE

## Document Authorization

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## Document Approval Record

<b>Version</b>	<b>BOD Approval Date</b>	<b>Description of Changes</b>
1.0	July 03, 2024	New Charter
1.1	October 09, 2024	The modifications outlined in the PCB’s letter number 454/ASND/2024/7.
1.2	January 28, 2026	Renamed as Terms of Reference to align with CG Code



## Terms of Reference: Audit and Risk Committee

### 1. Purpose:

To assist the Board of directors in fulfilling its oversight responsibilities for practices for the financial reporting process, risk management, governance and structure, internal control, the audit process, compliance with laws and regulations and the code of conduct. This oversight mechanism provides confidence in the integrity of these practices. The Audit and Risk Committee performs its role by providing independent oversight to the Board, Privatization and Corporatization Board (PCB) and State Internal Audit Committee (SIAC).

### 2. Authority

The Audit and Risk Committee has the authority to conduct or authorize investigations into any matters within its designated scope of responsibility. The Committee is empowered to:

- a) Access, without restriction, to members of management, employees, and relevant information deemed necessary for the fulfilment of its duties. In the event that access to such requests is denied due to legal or confidentiality reasons, the Committee shall adhere to a prescribed, Board-approved mechanism for resolution of the matter.
- b) Obtain any explanatory information it deems necessary for the discharge of its responsibilities.
- c) Appoint, compensate, and oversee the work of any registered public accounting firm employed by the organization.
- d) Resolve any disagreements between management and the auditor regarding financial reporting.
- e) Pre-approve all auditing and non-audit services.
- f) Retain independent counsel, accountants, or other advisors to advise the Committee or assist in the conduct of an investigation.



- g) Seek any information it requires from employees, all of whom are directed to cooperate with the Committee's requests, or from external sources.
- When seeking professional advice, the Committee must first ascertain whether the required information or advice can be obtained internally. Should internal resources prove insufficient or in exceptional circumstances, external advice may be sought on a case-by-case basis following established procurement procedures.
  - Prior to proceeding, the committee shall seek approval from the Board of Directors. In requesting this prior approval, comprehensive details must be provided regarding the nature and justification for seeking independent professional advice, along with an estimated cost associated with obtaining such advice.
  - If there is consensus among board members about ongoing requirements for external expertise, they may consider establishing a retainer arrangement with selected advisors to facilitate future consultations efficiently. Before proceeding with this initiative, the committee shall submit the proposal to the Board and obtain approval from the Board of Directors.
- h) Convene meetings with company officers, external auditors, or outside counsel, as necessary.
- i) Oversee, identify, assess, and manage risks (encompassing both financial and non-financial risks) and compliance in accordance with established policies and frameworks.
- j) Recommend to the Board of Directors a suitable risk appetite or any other matters related to risk management.
- k) Oversee the allocation of risk-related responsibilities to each Board committee and perform a gap analysis to ensure comprehensive oversight of all risks.
- l) In conjunction with the full Board, approve the company's enterprise-wide risk management framework.
- m) The Committee shall consider any matter within its mandate under these Terms of Reference.



### **3. Composition and Meetings:**

The Audit and Risk Committee will comprise three or more non-executive directors as determined by the Board. Committee members will be appointed by the Board. The board will designate the chair of the Committee in accordance with the Corporate Governance Code of PCB, established pursuant to Privatization and corporatization Act 3/2013. For all convened meetings of the Committee, a quorum shall be deemed established and sufficient when a majority of the Committee members are present.

The Committee Chair, in consultation with Committee members, shall establish the schedule and frequency of Committee meetings, with a minimum requirement of one (1) meeting monthly. The Committee Chair shall develop and set the Committee's agenda in collaboration with the Company Secretary. The agenda and pertinent information for each Committee meeting shall be disseminated to Committee members no less than two days prior to the scheduled meeting. In case of urgent meetings, the committee members may unanimously agree to waive the notice period. The Chief Internal Auditor or Chief Risk Officer or Managing Director or any Committee member may propose agenda items for consideration.

The term of the Audit and Risk committee is five years. The Committee shall maintain written documentation of its meetings. Minutes of each Committee meeting shall be distributed to each Committee member within five working days. Minutes shall be approved in the next meeting of the Committee, and it should be signed and filed within the Company's official records. The Company Secretary shall fulfill the role of secretary to the Committee.

### **4. Responsibilities and Duties:**

The Audit and Risk Committee shall be responsible for the following duties:

#### **a) Financial statements:**

- I. Review significant accounting and reporting issues, including complex or unusual



transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.

- II. Review with management and the external auditors the results of the audit, including any difficulties encountered.
- III. Review the quarterly financial statements submitted to PCB and consider whether they are complete, consistent with information known to committee members, and comply with the IFRS.
- IV. Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
- V. Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.
- VI. Review with management and the external auditors all matters required to be communicated to the committee under International Standards on Auditing (ISA) and regulatory requirements of the Maldives.
- VII. Understand strategies, assumptions and estimates that management has made in preparing financial statements, budgets and investment plans.
- VIII. Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
- IX. Review interim financial reports with management and the external auditors before filing with regulators and consider whether they are complete and consistent with the information known to committee members.
- X. Understand strategies, assumptions and estimates that management has made in preparing financial statements, budgets, and investment plans.

**b) Internal Audit:**

- I. To obtain reasonable assurance with respect to work of the internal audit activity, the Audit and Risk committee will provide oversight related to:

Internal audit Terms of Reference and resources:



- a) Review and approve the internal audit Terms of Reference every three years. The Terms of Reference should be reviewed to ensure that it accurately reflects the internal audit activity's purposes, authority, and responsibility, consistent with the mandatory guidance of the SIAC.
- b) Advise the board about increases and decreases to the requested resources to achieve the internal audit plan. Evaluate whether any additional resources are needed permanently or should be provided through outsourcing.

Internal Audit engagement and follow-up:

- a) Review internal audit reports and other communications to management
- b) Review and track management's action plans to address the results of internal audit engagements.
- c) Review with the chief audit executive the internal audit budget, resource plan, activities, and organizational structure of the internal audit function.
- d) Approve the annual audit plan and all major changes to the plan. Review the internal audit activity's performance relative to its plan.
- e) Approve decisions regarding the appointment and removal of the Internal Audit Manager. Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the chief audit executive.
- f) At least once per year, review the performance of the Internal Audit Manager and concur with the annual compensation and salary adjustment.
- g) On a regular basis, meet separately with the Internal Audit Manager to discuss any matters that the committee or internal audit believes should be discussed privately.
- h) Inquire from the Internal Audit Manager whether any internal audit engagements or non-audit engagements have been completed but not reported to the committee; if so, inquire whether any matters of significance arose from such work.
- i) Inquire of the Internal Audit team manager whether any evidence of fraud and non-



compliance with laws and regulations have been identified during internal audit engagements and evaluate what additional actions, if any, should be taken.

Standards conformance:

- a) Inquire from the Internal audit Manager about steps taken to ensure that internal audit activity conforms to the Institute of Internal Auditor's (IIA) International Standards for the professional practice framework (IPPF) for Internal Auditing.
- b) Ensure that the internal audit activity has a quality assurance and improvement program and that the results of these periodic assessments are presented to the audit and risk committee.
- c) Ensure that the internal audit activity has an external quality assurance review every five years through the Auditor General's Office.
- d) Review the results of the independent and external quality assurance review and monitor the implementation of the internal audit activity's action plans to address any recommendations.
- e) Advise the board about any recommendations for the continuous development of the internal audit activity.

**c) External Audit:**

- I. To obtain reasonable assurance with respect to work of the external assurance providers – Auditor General and the audit and risk committee will meet with the external assurance providers during the planning phase of the engagement, the presentation of the audited financial statements, and the discussion of the results of engagements and recommendations for management.
- II. Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- III. Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors.



- IV. Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the company, including non-audit services, and discussing the relationships with the auditors.
- V. On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.
- VI. Monitor management's progress on action plans.
- VII. To obtain reasonable assurance that management has acted on the results and recommendations of internal and external audit engagements, the audit and risk committee will regularly review reports on the progress of implementing approved management action plans and audit recommendations resulting from completed audit engagements.

**d) Control**

- I. To obtain reasonable assurance with respect to the adequacy and effectiveness of the organizations controls in responding to risk within the organization's governance, operations and information systems, the Audit and Risk committee will:
  - 1. Consider the effectiveness of the organizations control framework, including information technology security and control.
  - 2. Review and provide advice on the control of the organization as a whole and its individual units.
  - 3. Receive reports on all matters of significance arising from work performed by other providers of financial and internal control assurance to senior management and the board.
  - 4. Consider the effectiveness of the company's internal control system, including information technology security and control.
  - 5. 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.



**e) Fraud**

- I. To obtain reasonable assurance with respect to the organization's procedures for the prevention and detection of fraud, the audit and risk committee will:
  1. Oversee management's arrangements for the prevention and deterrence of fraud.
  2. Ensure that appropriate action is taken against known perpetrators of fraud.
  3. Challenge management and internal and external auditors to ensure that the entity has appropriate anti-fraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected.

**f) Risk Management:**

- I. Help to set the tone and develop a culture of the company-wide risk, promote open discussion regarding risk, integrated risk management into company's goals and compensation structure, and create a corporate culture such that people at all levels manage risks rather than reflexively avoid or heedlessly take them.
- II. Provide input to management regarding the company's risk appetite and tolerance. The risk appetite and the statement of risk appetite and tolerance shall be approved by the Board.
- III. Monitor the company's risk profile and its on-going potential exposure to risks of various types.
- IV. Review the risk management policy and plan. Management should develop both the risk management policy and the plan for the Committee's approval. The risk management plan should consider the maturity of the risk management of the company and should be tailored to the specific circumstances of the company. The risk management plan should include:
  - The company's risk management structure.
  - The management framework.
  - The standards and methodology adopted.



- Risk management guidelines.
  - Reference to integration.
  - Details of the assurance and review of the risk management process.
- V. The risk management policy and appetite statement shall be approved by the Board.
- VI. The risk management policy should set the tone for risk management in the company and should indicate how risk management will support the company's strategy. The risk management policy should include the company's definition of risk and risk management, the risk management objectives, the risk approach and philosophy, various responsibilities, and ownership for risk management within the company.
- VII. The Committee shall review the risk management plan at least once a year. Define risk review activities regarding the decision, initiatives and transactions and exposures and prioritize them prior to being sent to the board's attention.
- VIII. The Committee shall review and confirm that all responsibilities outlined in the Terms of Reference have been carried out.
- IX. The committee shall monitor company's all risks, so that the committee recognizes the responsibilities delegated to other committees by the board and understands that the other committees may emphasize specific risk monitoring through their respective activities.
- X. The committee shall conduct an annual performance assessment relative to the committee's purpose, duties and responsibilities.
- XI. The committee shall oversee the risk program or interactions with the management.
- XII. The committee shall review and approve the risk management infrastructure and the critical risk management policies adopted by the organization.
- XIII. The committee shall periodically review and evaluate the company's policies and practices with respect to risk assessment and risk management and annually present to the full board a report summarizing the committee's review of the company's methods for identifying, managing and reporting risks and risk management deficiencies.
- XIV. The committee shall continually, as well as at specific intervals, monitor risks and risk management capabilities within the company, including communication about escalating risk and crisis preparedness and recovery plans.



- XV. The committee shall continually obtain reasonable assurance from management that all known and emerging risks have been identified and mitigated or managed.
- XVI. The committee shall communicate formally and informally, in every 3 (three) months, with the executive team regarding risk management, risk governance and oversight.
- XVII. The committee shall discuss the Managing Director and management the company's major risk exposure and review the steps that the management has taken to monitor and control such exposures, including the company's risk assessment and risk management policies. The committee shall ensure that the guidance given is followed and that the company is at an acceptable level in terms of risk.
- XVIII. The committee shall review and assess the effectiveness of the company's risk assessment processes and recommend improvements where appropriate. It shall also review and address, as appropriate, management's corrective actions for deficiencies that arise with respect to the effectiveness of such programs.
- XIX. The committee shall monitor governance rating agencies and their assessments of the company's risk and proxy advisory services policies and make recommendations as appropriate to the board.

## **5. Voting:**

- a) The Chairman shall be duly informed of the individuals eligible to vote.
- b) The Chairman shall seek a consensus in support of the recommendation. If consensus appears unattainable, the Chairman will propose a motion aimed at facilitating agreement among members. Should any Committee member suggest an amendment to this motion, and it receives a second, a vote will follow.
- c) Prior to any motion being proposed by the Chairman, any Committee member may introduce their own motion, provided it is seconded. The process then advances with the Chairman seeking consensus on whether voting should occur via show of hands or through secret ballot if agreed upon by those present and eligible to vote.



- d) Before initiating any voting process, the specific question or motion under consideration shall be clearly articulated. There should be no interruptions during this period until voting has concluded and results have been announced.
- e) In instances where a committee member moves a motion that gains support through seconding, an immediate vote may not be necessary unless another member proposes an amendment requiring further deliberation. This amendment must also receive seconding before proceeding with votes comparing both the original motion and its amendment; the outcome will then establish what becomes known as the substantive motion.
- f) Subsequent amendments may still be proposed against this substantive motion but must adhere to similar requirements for seconding and voting.
- g) In cases where votes result in ties or require decisive input from chairman, the Chairman retains authority over casting votes as needed.

**6. Reporting:**

- a) The Committee shall present to the Board the requisite recommendations encompassing pertinent information regarding the agenda items.
- b) Disclose in the company's integrated report how it has satisfied itself that risk assessments, responses and interventions are effective.
- c) The Committee shall give due consideration to any recommendations made by, or matters referred to by, other Board Committees or the Board.
- d) The activities of the Committee shall be formally reported to the Board on a quarterly basis.

**7. Terms of Reference Review:**

- a) Any changes to these Terms of Reference shall be submitted and approved by the Board of Directors.
- b) The Terms of Reference shall be reviewed at least once every three years and recommend any changes it considers necessary for the Board's approval.

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