



# STO Board Committee Charter

*Audit*

*Committee Charter*

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**This Charter provides the framework for the governance of the Audit Committee's activities, ensuring effective oversight in financial integrity and regulatory compliance.**

The Audit Committee Charter provides a comprehensive framework for the roles and responsibilities of the Audit Committee of STO. The charter outlines the purpose, scope, authority, duties, procedures, and the relationship between the committee, the Board, and external auditors. It establishes the committee's oversight role in financial reporting, internal controls, and compliance while ensuring member independence and appropriate qualifications.



## **Purpose**

This Charter stipulates the roles and responsibilities of the Audit Committee and shall be used as a reference for effective conduct of Committee duties.

## **Last revised date**

September 2024

## **Scope**

This Charter applies to the Audit Committee of STO, and the Committee's responsibilities as detailed in this charter extend to the whole of the STO Group.

## **Charter Overview**

This Charter provides the framework for the governance of the Audit & Risk Committee's activities. It is not exhaustive and should be interpreted in the context of the Board's overall responsibilities to the stakeholders of STO.



## 1. Authority

This Charter of the Audit Committee of the Board of Directors (“Charter”) has been drafted based on recommendations of the Institute of Internal Auditors and adopted to the requirements of the Corporate Governance Code of Maldives.

All provisions of this Charter, and provisions to be made, shall be in accordance with the Company’s Act of the Maldives in effect and subsequent amendments to the Act (herein after referred to as the Companies Act), the Listing Rules, the Public Finance Law 2006, the Audit Act 2007, laws and regulations of Capital Market Development Authority (“CMDA”), and any relevant authority of the Government of the Maldives.

If any provision of this Charter does contravene the Companies Act or the Listing Rules, or Public Finance Law 2006, or the Audit Act 2007, or laws and regulations of Capital Market Development Authority (“CMDA”), or any other relevant authority of the Maldives, and are in accordance with generally accepted standards of good governance, then provisions shall be enforced.

The Committee shall have all the authority necessary to fulfill the duties and responsibilities assigned to the Committee in this Charter or otherwise assigned to it by the Board.

The Committee has the authority to conduct or authorize investigations into any matters within its scope of responsibility.

## 2. Purpose and Objectives

The Audit Committee is appointed by the Board to assist the Board in its oversight of the following in relation to the STO Group:

- i. The integrity of the financial statements and the Company’s financial reporting processes.
- ii. The independent auditor’s qualifications and independence,
- iii. The performance of the Company’s internal audit function and independent auditors,
- iv. The compliance by the Company with legal and regulatory requirements and,
- v. To assure that there is in place effective systems of controls reasonably designed to;
  - a. Safeguard assets and income of the Company
  - b. Maintain compliance with Company’s ethical standards, policies, plans and procedures



- vi. Provide a forum for communication among the independent auditors, management, the internal auditing department, and the Board

Although the committee has the powers and responsibilities set forth in this Charter, the roles of the committee is oversight.

### 3. *Composition and Qualification*

- i. The Audit Committee must comprise of at least three (3) directors, all of whom must be non-executive, and majority of whom, including Chairperson, must be independent.
- ii. Members of the Committee shall be appointed for a period of one year (From one AGM to the next), unless such a member ceases to be a Director or the Board decides otherwise.

- iii. Independence  
No member will be considered independent unless the Board has affirmatively determined that he or she has no material, direct or indirect relationship with the Company. The Board shall determine independence based on standards established by the Board in accordance with the Corporate Governance Code, Capital Markets Development Authority or any other such authority or any other applicable laws and regulations governing independence from time to time.
- iv. Financial Literacy/Expertise
  - a. The Board must ensure that the members of the Audit Committee are duly qualified with at least two (2) members with accounting or related financial expertise or experience.
  - b. All members should have a working familiarity with basic finance and accounting practices, and at least one member must have accounting or related financial management expertise.



#### 4. *Quorum*

The quorum necessary for the transaction of matters submitted to the Committee shall be majority of members in the committee.

#### 5. *Meetings*

- i. The Committee shall meet at least quarterly, or more frequently as circumstances dictate.
- ii. The Audit Committee shall meet periodically with management, the internal auditors and the independent auditor in separate executive sessions.

#### 6. *Notice of the Meetings*

Meetings of the committee shall be called by the secretary of the committee at the request of the committee chairman. The chairman may arrange for meetings, upon request of any members of committee as well.

#### 7. *Minutes of Meeting*

The secretary shall minute the proceedings and resolutions of all committee meetings, including the names of those present and in attendance. Draft minutes of committee meetings shall be circulated within 48 hours of the meeting, to all members of the committee.

#### 8. *Annual General Meeting*

The committee chairman should attend the annual general meeting to answer any shareholder questions on the committee's activities.



## 9. *Duties and Responsibilities*

### 9.1. *Financial Reporting*

The Audit Committee, to the extent it deems necessary or appropriate shall:

- i. Review and discuss the annual audited financial statements.
- ii. Review and discuss the Company's quarterly financial statements.
- iii. Review (i) analyses prepared by the management or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including analyses of the effects of alternative IFRS methods on the financial statement; (ii) major issues regarding accounting principles and financial statement presentation, including any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies; (iii) Discuss the external audit plan and its adequacy with the external auditors.; and (iv) Review of external audit recommendations that are either implemented or not implemented, including significant accounting entries.
- iv. Review and discuss any reports from the independent auditors on:
  - a. All critical accounting policies and practices to be used.
  - b. All alternative treatments of financial information within the company's accepted accounting principles that have been discussed with management, ramifications of the use of such alternatives disclosures and treatments preferred by the independent auditor.
  - c. Other material written communications between the independent auditor and management, such as any management letter or scheduled of unadjusted differences.
- v. Review the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.



## 9.2. *External Audit*

- i. Appointment of external auditor
  - a. The Audit Committee shall have the primary responsibility to appoint or replace the independent auditor (subject, if applicable, to shareholder ratification).
  - b. The Audit Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work.
  - c. The Audit Committee shall pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent Auditor.
  - d. The Audit Committee may form and delegate authority to grant preapprovals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant preapprovals shall be presented to the full Audit Committee at its next scheduled meeting.
  - e. not implemented, including significant accounting entries. Evaluate the qualifications, performance and independence of the independent auditor. If the independent auditor provides non-audit services, consider whether the provision of non-audit services is compatible with maintaining the independent auditor's independence.
  - f. The independent auditor shall report directly to the Audit Committee.
- ii. Oversight of the Company's relationship with the external auditor
  - a. Obtain and review report from the independent auditor at least annually, regarding (1) the independent auditor's internal quality control procedures, (2) any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, (3) any steps taken to deal with any such issues, and (4) all relationships between the independent auditor and the Company.





- b. Recommend policies for the Company's hiring of employees or former employees of the independent auditor.
  - c. Meet with the independent auditor prior to the audit to discuss the planning and staffing of the audit.
- ii. Periodic Rotation of Audit firm and its personnel. Ensure compliance with any law, rule or regulation that requires either the rotation of audit partners or the rotation of the independent auditor.
- 9.3. Internal Audit**
- i. Appointment and removal of the Chief Audit Executive.
  - ii. Tenure of the Chief Audit Executive is seven years. Where the tenure of the Chief Audit Executive exceeds seven years, the Audit Committee should explicitly discuss annually the Committee's assessment of the Chief Audit Executive's independence and objectivity.
  - iii. Discuss with the independent auditor and management the internal audit department responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit.
  - iv. Monitor and review the effectiveness of the internal audit activities, including reviewing the summary reports submitted, all internal audit reports and plans and monitoring management's responsiveness, and ensure that it is adequately resourced.
  - v. At least annually, ensure the adequacy of the internal audit function.
  - vi. Review the significant reports to management, prepared by the internal auditing department and management's responses.
  - vii. The Audit Committee must, at least annually, review the adequacy of the Company's internal financial controls, operational and compliance controls, and risk management policies and systems established by the Management (collectively 'internal controls').



#### *9.4. Compliance*

- a. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- b. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Company's financial statements or accounting policies.

#### *9.5. Reporting Responsibilities*

- a. The Chairperson of the Committee should report formally to the Board with a summary of the Committee's work and results. This should include the Committee's meetings, any formal recommendations of the Committee and other major issues of which the Committee believes the Board should be informed.

- b. The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed. The committee shall produce a report to be included in the company's annual report about its activities
- c. The Audit Committee shall report regularly to the Board, including on review of any issues that arise with respect to the quality or integrity of Company's financial statements.



## 10. Confidentiality and Information Security

- i. **Commitment to Confidentiality:** All members of the Committee are entrusted with sensitive and confidential information essential to their oversight functions. Members must commit to the highest standards of confidentiality and information security.
- ii. **Protection of Confidential Information:** Members must take all necessary precautions to protect confidential information from unauthorized access, disclosure, modification, or destruction. This includes, but is not limited to, financial data, strategic plans, risk assessments, legal documents, and any non-public information about the Company's operations, customers, or partners.
- iii. **Prohibited Use:** Members are strictly prohibited from using confidential information for personal gain or in any manner that could harm the Company's interests, violate trust, or contravene laws and regulations.
- iv. **Reporting Unauthorized Disclosure:** Any actual or suspected unauthorized disclosure of confidential information must be immediately reported to the Committee Chairperson and appropriate measures taken to mitigate any potential harm.
- v. The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed. The committee shall produce a report to be included in the company's annual report about it4.9.5Continued
- vi. **Obligation:** The obligation to preserve confidentiality continues even after a member's tenure on the Committee ends, respecting all confidential and proprietary information related to the Company's business.
- vii. **Security of Audit Software:** Members must adhere to all security protocols associated with Audit Software to protect the confidentiality and integrity of documents and communications. This includes secure login practices, not sharing passwords, and ensuring that non-Committee members do not access the software.



## *11. Limitation of Audit Committee's Role*

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted principles and applicable rules and regulation. These are the responsibilities of the management and the independent auditor. The Committee does not provide any expert or special assurance as to the Company's financial statement; nor does it provide any professional certification as the independent external auditors.

## *12. Other Matters*

The committee shall;

- a. Have access to enough resources to carry out its duties.
- b. Be provided with appropriate and timely training, both in the form of an induction program for new members and on an ongoing basis for all members.
- c. Give due consideration to laws and regulations, the provisions of the Code and the requirements of the Listing Authority Rules, Transparency Rules and any other applicable Rules, as appropriate.



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