

Coast Investment & Development Company (K.S.C.P.) Anti-Money Laundering and Combating Financing of Terrorism Internal Audit Report – Final

January 2025

تحت المراقبة في اجتماع مجلس الإدارة
الموافق: ٢٠٢٥/٠١/٢٠

EXECUTIVE SUMMARY

Background

As part of the Internal Audit Services provided to Coast Investment & Development Company (K.S.C.P.), hereinafter referred to as "Coast" or "the company", RSM Albazie Consulting W.L.L., hereinafter referred to as "RSM Albazie Consulting" performed an internal audit review during January 2025 over the Anti-Money Laundering and Combating Financing of Terrorism Function for the period from 1st January 2024 to 31st December 2024.

This report was prepared for the use by the Board of Directors, Audit Committee and the management. Recommendations for improvements are presented for management's consideration, and the management is responsible for the effective implementation of corrective action plans.

Objective and Scope

The review focused on achieving the following objectives:

- Assessing compliance with applicable regulatory authorities, including the requirements outlined in CMA Book #16 and regulations governing the Anti-Money Laundering and Combating Financing of Terrorism function.
- Ensuring compliance with all applicable rules and regulations of the regulatory authorities on a timely basis.
- Assessing the process of submission of regulatory and Management Information Reports; and
- Evaluating the existence and effectiveness of internal controls in addressing significant risks.

The following areas were included in scope:

- Reviewing the AML function's coordination with other departments for the preparation of reports to be submitted to the regulatory authorities.
- Ensuring that the top management is provided with all the necessary information about the department activities.

Limitations of our work

The formation of our observations is achieved through a risk-based plan of work, agreed with management and approved by the audit committee. Our work is subject to inherent limitations, as detailed below:

- Internal audit has not reviewed all risks and assurances relating to the organization.
 - The work is based on the findings and conclusions from the work undertaken, the scope of which has been agreed with management.
 - Where strong levels of control have been identified, there are still instances where these may not always be effective. This may be due to human error, incorrect management judgement, management override, controls being by-passed or a reduction in compliance.
- The factors considered which might influence our conclusions are:
- Inherent risk in the area being audited.
 - Limitations in the individual audit assignments.
 - The adequacy and effectiveness of the risk management and governance control framework.
 - The impact of weakness identified.
 - The level of risk exposure.
 - The response to management actions raised and timeliness of actions taken.

Overall Summary/Highlights

Testing resulted in the identification of **one (1) observation** (rated as "High"). Based on this, an overall report rating of "Marginal" was assigned to help management understand our assessment of the overall design and operating effectiveness of the company.

The observations, recommendations, and Coast's management responses to address each are described in the Detailed Observations section of this report. A summary of the Observations noted during the review is noted in the table below.

Overall Rating (See Appendices A&B for definitions)				
	Report Rating	Number of Observations by Risk Rating		
		High	Moderate	Low
Current Audit	Marginal	1	-	-
Prior Audit	Satisfactory	-	-	-

EXECUTIVE SUMMARY (CONTINUED)

Ratings and conclusions

Following is a summary of observations noted in the areas reviewed. Definitions of the rating scales are included in the Appendices:
Ratings by Observation

Observations	Rating	Effort
1. Absence of Real-Time PEP Status Updates The current system (Lexis Nexis) does not automatically detect when an existing client becomes a PEP. Instead, PEP status is manually reviewed on a monthly basis. This creates a gap where a client could attain PEP status mid-month and conduct transactions without the required enhanced due diligence, increasing the risk of regulatory non-compliance and potential money laundering exposure.	High	Moderate

EXECUTIVE SUMMARY (CONTINUED)

Status of prior audit observations

No observations noted in the prior year audit.

DETAILED OBSERVATIONS

1. Absence of Real-Time Status Updates

COSO Framework Components: Control Activities

As per better practices, financial institutions should implement mechanisms to identify clients who become PEPs promptly to ensure appropriate enhanced due diligence measures are applied without delay.

The current system (Lexis Nexis) does not automatically detect when an existing client becomes a PEP. Instead, PEP status is manually reviewed on a monthly basis. This creates a gap where a client could attain PEP status mid-month and conduct transactions without the required enhanced due diligence, increasing the risk of regulatory non-compliance and potential money laundering exposure.

Implication

Failure to detect newly emerging PEP statuses in real time may lead to delayed application of enhanced due diligence, increasing the risk of regulatory non-compliance and potential money laundering exposure.

Recommendation

Implement an automated or more frequent real-time monitoring system that promptly flags changes in PEP status, ensuring timely application of enhanced due diligence measures.

Management's Action Plan

We are in the process to fix it.

Risk Rating: High

Effort Rating: Moderate

Responsible Party:
AML & CFT Department

Target Date: Q1, 2025

APPENDIX A – RATING DEFINITIONS

Observation Risk Rating Definitions		Improvement Opportunity Rating Definitions	
Rating	Definition	Rating	Impact
Low	Process improvements exist but are not an immediate priority for the Company. Taking advantage of these opportunities would be considered best practice for the Company.	Low	The recommended change, if implemented, would: <ul style="list-style-type: none"> • Impact only one location • Improve efficiency
Moderate	Process improvement opportunities exist to help the Company meet or improve its goals, meet or improve its internal control structure and further protect its brand or public perception. This opportunity should be considered in the near term.	Moderate	Opportunity meets the criteria for "Low" impact, and additionally meets one or more of the following criteria: <ul style="list-style-type: none"> • Change affects a business segment. • Generates cost reduction. • Enhances availability of data used to make business decisions
High	Significant process improvement opportunities exist to help the Company meet or improve its goals, meet or improve its internal control structure and further protect its brand or public perception presents. This opportunity should be addressed immediately.	High	Improvement opportunity meets the criteria for "Low" and "Moderate" impact, and additionally meets one or more of the following criteria: <ul style="list-style-type: none"> • Change affects the entire organization. • Cost reduction and improved efficiency • Improves operating effectiveness of upstream/downstream processes, including those involving third parties
			Effort
			Level of effort to address improvement opportunity meets the following criteria: <ul style="list-style-type: none"> • Completion in < 3 months • Requires change to no more than two manual processes. • Only local/department resources needed
			Level of effort to address improvement opportunity meets the below criteria: <ul style="list-style-type: none"> • Completion in 3 to 12 months • Requires modification to current system application set up • Cross-functional resources
			Level of effort to address improvement opportunity meets the below criteria: <ul style="list-style-type: none"> • Completion requires more than 12 months. • Requires new system or module or significant programming change to existing system. • Entity-wide resources



APPENDIX B – REPORT RATING DEFINITIONS

Report Rating Definitions	
Rating	Explanation
Satisfactory	Adequate internal controls are in place and operating effectively. Few, if any, improvements in the internal control structure are required. Observation should be limited to only low-risk observations identified or moderate observations that are not pervasive in nature.
Marginal	Certain internal controls are either: <ul style="list-style-type: none"> • Not in place or are not operating effectively, which in the aggregate, represent a significant lack of control in one or more of the areas within the scope of the review. • Several moderate control weaknesses in one process, or a combination of high and moderate weaknesses that collectively are not pervasive.
Unsatisfactory	Fundamental internal controls are not in place or operating effectively for substantial areas within the scope of the review. Systemic business risks exist that have the potential to create situations that could significantly impact the control environment. Significant/several control weaknesses (breakdown) in the overall control environment in part of the business or the process being reviewed. <ul style="list-style-type: none"> • Significant non-compliance with laws and regulations. • High observations that are pervasive in nature.
Not Rated	Opportunity to improve efficiency or profitability of operations but does not indicate an internal control weakness or a material inefficiency.

APPENDIX C – COSO PRINCIPLES

The COSO Framework sets out the following 17 principles (summarized):

Control Environment	<ul style="list-style-type: none">• Demonstrates commitment to integrity and ethical values• Exercises oversight responsibilities• Establishes structure, authority and responsibility• Demonstrates commitment to competence• Enforces accountability
Risk Assessment	<ul style="list-style-type: none">• Specifies suitable objectives• Identifies and analyzes risk• Assesses fraud risk• Identifies and analyzes significant change
Control Activities	<ul style="list-style-type: none">• Selects and develops control activities• Selects and develops general controls over technology• Deploys through policies and procedures
Information & Communication	<ul style="list-style-type: none">• Uses relevant information• Communicates internally• Communicates externally
Monitoring	<ul style="list-style-type: none">• Conducts ongoing and/or separate evaluations• Evaluates and communicates deficiencies

APPENDIX D – FOLLOW UP

Report Distribution List

Name	Title
Mr. Abdul Wahab Mohammad Ali Al Wazzan	Chairman – Audit Committee
Mr. Ayad Al Sumait	Audit Committee Member
Mr. Osama Al Ayoub	Audit Committee Member
Mr. Asaad Ahmad A. Al-Barwan	Chief Executive Officer
Mr. Fares Halal Madi	SVP - Compliance & Legal Affairs Group
Ms. Geethu Jacob	Internal Audit Officer

We appreciate the cooperation and assistance from all involved with this review.



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