Internal Audit Report - Final Compliance and Legal Affairs Department Coast Investment and Development Company (K.S.C.P.)

January 2025

تمت الموافقة في اجتماع مجلس الإدارة الموافقة في اجتماع مجلس الإدارة



EXECUTIVE SUMMARY

Background

As part of the Internal Audit Services provided to Coast Investment and Development Company (K.S.C.P), hereinafter referred to as "Coast" or "the company", RSM Albazie Consulting W.L.L. (RSM Albazie Consulting) performed an internal audit review during December 2024 over the Compliance and Legal Affairs Department for the period from July 2023 until November 2024.

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

Objective and Scope

The objective of this review was to obtain an understanding of and evaluating the Control Environment at Compliance and Legal Affairs Department, to ensure the adequacy and effectiveness of the key internal controls affecting Compliance and Legal Affairs Department processes and identify opportunities for control and process improvements.

The following areas were included in the scope:

- Corporate Governance Framework
- Policies and Procedures for Corporate Governance
- Compliance with regulatory bodies (CMA)
- Board and committee formation, composition, and activities
- Board & Committees Minutes of Meetings
- Oversight over the internal audit and external audit
- Disclosure and transparency
- Social responsibility and sustainability
- Ethics and business conduct
- Contracts with external legal firms to be complied with applicable laws and regulations
- Following- up and coordinating with external legal consultants regarding the legal disputes
- The status of ongoing and pending legal cases are adequately followed

- up, monitored, and reported to senior management to ensure proper and timely actions; and
- Relevance, reliability, and integrity of the information provided to the management.

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; and
- The response to management actions raised and timeliness of actions taken



Overall Summary / Highlights

Our testing resulted in identification of three (3) observations in the form of one (1) observation (rated as 'High'), one (1) observation (rated as 'Moderate') and one (1) observation (rated as "Low) 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 Compliance and Legal Affairs department.

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

	2	-	Marginal	Prior Audit
1	_	1	Marginal	Current Audit
Low	Moderate	High	Kating	
Risk Ra	Number of Observations by Risk Rating	Number of C	Report	



EXECUTIVE SUMMARY (CONTINUED)

Status of prior audit observations

The following is a status report on the observations noted in our previous internal audit report. The reported status notes the progress made toward plan completion, as reported to internal audit. Through interviews with management and staff, internal control testing and our current observations, the accuracy of the reported progress was verified and is reported as "Completed", "In-Process" or "Open". Any in-process or open items from the prior review are crossreferenced below to audit observations noted during this review.

-	华
Monitoring of Social Media Platforms and Controls Absence of adequate social media governance and monitoring over the social media platforms.	Prior Audit Observation
Moderate	Rating
	Previous Management response
	Current Management response
	Target Date
Complete	Status



EXECUTIVE SUMMARY (CONTINUED)

Ratings and conclusion

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

Observations

Board of Directors Conflict of Interest Disclosures

We noted absence of conflict-of-interest disclosure by the Board of Directors.

Compliance Program and Testing

Whistle Blowing Email

compliance testing carried out by the department.

Currently, there is no compliance plan developed by the company. Furthermore, we have also noticed the absen

Although the company has established a designated whistleblowing email (whistleblowing@coast.com.kw), we noted is currently non-functional. Two test emails sent on December 16, 2024, failed to deliver.

that it	ice of		
Low	Moderate	High	Rating
Low	Low	Moderate	Effort

©2025 RSM Albazie Consulting W.L.L. All rights Reserved.



DETAILED OBSERVATIONS

1. Board of Directors Conflict of Interest Disclosures

Risk Rating: High

Effort Rating: Moderate

COSO Framework Components: Control Activities

As per article 7-3 of Book 15 sub-point 7 "The Members of a Board of Directors shall disclose to the Board of Directors any mutual interests with the company,

Furthermore, a signed Conflict of Interest Declaration is essential for ensuring transparency, mitigating potential ethical risks, and upholding the integrity of the

We noted absence of conflict-of-interest disclosure by the Board of Directors.

Implication

Absence of conflict of interest disclosures by the Board of Directors may lead to non-compliance with the regulatory requirements, and may also lead to penalties/

Recommendation

We recommend that the Board of Directors disclose conflict of interest on a periodic basis to ensure compliance with the applicable legal regulations.

Management's Action Plan

We are in the process of obtaining conflict of interest disclosures from the Board of Directors.

Responsible Party:

Compliance and Legal Affairs Department

Target Date:

Q1 2025





Compliance Program and Testing

Risk Rating: Moderate

Effort Rating: Low

COSO Framework Components: Control Activities

identifies applicable regulatory requirements, enabling the compliance department to effectively monitor the implementation of these regulations across various A compliance program facilitates the company in conducting compliance testing in alignment with the compliance plan over key departments. Additionally, it departments, thereby mitigating the risk of legal penalties from regulatory authorities.

Currently, there is no compliance plan developed by the company. Furthermore, we have also noticed the absence of compliance testing carried out by the

Implication

Furthermore, it may lead to penalties from the applicable regulators. Absence of compliance plan and testing may lead to the Compliance Department not being aware of any non-compliance matters within the company

Recommendation

review and update the policy to include polices with regards to compliance plan and testing over key department / processes of the company. We recommend developing compliance plan and conducting compliance testing to ensure non-occurrence of any noncompliance related activity. Additionally,

Management's Action Plan

5	
₩e	
5	
<u>{</u>	
9	
=	
-	

Responsible Party:

Compliance and Legal Affairs Department

Target Date:

Q1 2025





Whistleblowing Email

Risk Rating: Low

Effort Rating: Low

COSO Framework Components: Control Activities

against them and provide a proper protection for whistle-blowers." As per article 7-6 of Book 15 "Develop a mechanism that allows Stakeholders to report the Board of Directors of any unfair practices committed by the company

emails sent on December 16, 2024, failed to deliver. Although the company has established a designated whistleblowing email (whistleblowing@coast.com.kw), we noted that it is currently non-functional. Two test

Implication

Non-functional email may lead to employees, stakeholders or other external parties not able to report unethical behavior, fraud or other non-compliance matters to senior management.

Recommendation

Ensure the authorized whistleblowing channels are active and tested on periodic basis. Review and update the policy to ensure the correct email address is documented in the policy manual and on company website.

Management's Action Plan

The issue with the email has been corrected. Any incoming email on whistelblowing@coast.com.kw is directed to the Compliance and Legal Affairs department.

Responsible Party:

Compliance and Legal Affairs
Department

Target Date:

Implemented





APPENDIX A - RATING DEFINITIONS

Observa	Observation Risk Rating Definitions	Improvemo	Improvement Opportunity Rating Definitions	
Rating	Definition	Rating	Impact	Effort
Low	Process improvements exist but are not an immediate priority for Company. Taking advantage of these opportunities would be considered best practice for Company.	Low	The recommended change, if implemented, would: 1. Impact only one location 2. Improve efficiency	Level of effort to address improvement opportunity meets the following criteria: 1. Completion in < 3 months 2. Requires change to no more than two manual processes 3. Only local/department resources needed
Moderate	Process improvement opportunities exist to help 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: 1. Change affects a business segment 2. Generates cost reduction 3. Enhances availability of data used to make business decisions	Level of effort to address improvement opportunity meets the below criteria: 1. Completion in 3 to 12 months 2. Requires modification to current system application set up 3. Cross-functional resources
High	Significant process improvement opportunities exist to help 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: 1. Change affects the entire organization 2. Cost reduction and improved efficiency 3. Improves operating effectiveness of upstream/downstream processes, including those involving third parties	Level of effort to address improvement opportunity meets the below criteria: 1. Completion requires more than 12 months 2. Requires new system or module or significant programming change to existing system 3. 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: 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 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):

П		
н		
ı		

Control Environment

- Demonstrates committment to integrity and ethical values
- Exercises oversight responsibilities
- Establishes structure, authority and responsibility
- Demonstrates commitment to competence
- Enforces accountability

Risk Assessment

- Specifies suitable objectives
- · Identifies and analyzes risk
- Assesses fraud risk
- Identifies and analyzes significant change

Selects and develops control activities

Control Activities

- Selects and develops general controls over technology
- Deploys through policies and procedures

Information & Communication

- Uses relevant information
- Communicates internally
- Communicates externally

Monitoring

- Conducts ongoing and/or separate evaluations
- Evaluates and communicates deficiencies



APPENDIX D - REPORT DISTRIBUTION

For each observation noted previously in this report, a responsible person and targeted date was identified as a mean to assign responsibility for the agreed-upon resolution. It is the management's responsibility to verify that action plans are carried out and observations are adequately addressed.

Report Distribution List

and the state of t	Mr. Fares Halal Madi	Mr. Osama Al Ayoub	m yaa	Mr Avad Al-Sumait	Mr. Abdul Wahab Mohammad Ali Al Wazzan	The Cast of Calling of	Mr Rasim Abdullah Al Othmon	Nalle
Senior Vice President - Compliance & Legal Affairs Group	Court Committee Member	And: Committee Manager	Audit Committee Member	Cadi Collillitee Chairman	Audito	Board Chairman	litte	



advisor before taking any action based on the information herein. RSM Albazie Consulting W.L.L., its affiliates and related entities are not responsible for any loss This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional resulting from or relating to reliance on this document by any person.

obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party. Visit rsmus.com/about us for more RSM Albazie Consulting W.L.L. is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients but are separate and distinct legal entities that cannot information regarding RSM Albazie Consulting W.L.L. and RSM International

RSM® and the RSM logo are registered trademarks of RSM International Association. The power of being understood® is a registered trademark of RSM Albazie

©2025 RSM Albazie Consulting W.L.L. All rights Reserved