

# AUDIT COMMITTEE REPORT

## COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee is appointed by and is responsible to the Board of Directors. The Committee Comprises two Independent Non-Executive Directors and one Non-Executive Director. The Committee is chaired by a senior Chartered Accountant.

- Mr. Yohan Perera\*\* (appointed as the Chairman on 01st April 2024)
- Mr. Nanda Fernando\*\* (appointed as a member on 08th January 2024)
- Mr. Arjun Senaratne\*
- Mr. Sujeewa Rajapakse\*\* (resigned and ceased to be the Chairman w.e.f. 01st April 2024)
- Dr. Sarath Abeywardena\*\* (resigned w.e.f. 31st December 2023)

\* Non-Executive Director

\*\*Independent Non-Executive Director

The profiles of Mr. Yohan Perera, Mr. Nanda Fernando and Mr. Arjun Senaratne are given on page 32 to 35 of this report.

The Chairman and Chief Financial Officer of Hayleys PLC and the Managing Director and Finance Director of Haycarb PLC attend the meetings of the Committee by invitation.

Other members of the Board of Directors, members of the Senior Management team of Haycarb PLC and the Head of Group Management Audit and System Review of Hayleys PLC were present at the meetings of the Committee where appropriate. The External Auditors are also invited to be present where relevant.

The Company Secretary acts as the secretary to the audit committee.

## CHARTER OF THE AUDIT COMMITTEE

The role and the responsibilities of the Audit Committee with its specific terms of reference are described in the Audit Committee Charter. The Audit Committee Charter is in line with the schedule "M" of the "Code of Best Practice on Corporate Governance 2023" issued by the Institute of Chartered Accountants of Sri Lanka.

The Audit Committee Charter is periodically reviewed and revised with the concurrence of the Board of Directors to make sure that new developments relating to the function of the Committee are updated. The Charter of the Committee was last reviewed and approved by the Board in February 2024.

The "Rules on Corporate Governance" under the Listing Rules of the Colombo Stock Exchange and "Code of Best Practice on Corporate Governance" issued by Institute of Chartered Accountants of Sri Lanka in 2023, further regulate the composition, roles and functions of the Audit Committee.

## MEETINGS OF THE AUDIT COMMITTEE

The Committee meets as often as may be deemed necessary. The Committee had four formal meetings and the member attendance records are given below.

Name of the Member	Attendance
Mr. Yohan Perera** (appointed as the Chairman w.e.f. 1st April 2024)	1/1
Mr. Nanda Fernando** (appointed as a member w.e.f. 8th January 2024)	2/2
Mr. Arjun Senaratne*	4/4
Mr. Sujeewa Rajapakse** (resigned and ceased to be Chairman w.e.f. 1st April 2024)	3/3
Dr. Sarath Abeywardena** (resigned w.e.f. 31st December 2023)	2/2

\* Non-Executive Director

\*\*Independent Non-Executive Director

The proceedings of the Audit Committee are regularly reported to the Board of Directors. Audit committee meeting papers, including agenda, minutes and related reports and documents are circulated to the committee members in advance.

## THE AUTHORITY OF THE AUDIT COMMITTEE

- Recommend appointment, re-appointment, dismissal, service period and fees of the external auditor and internal audit service providers.
- The Audit Committee shall establish and maintain a direct communication channel with the external auditor.
- Resolve any issues regarding financial reporting between the management and the external auditor.
- Pre-approve all auditing and non-audit services performed by the firm of external auditor and internal audit service providers.
- Seek any information it requires from employees or external parties relating to investigations.
- Meet with the management as necessary to carry out the assigned duties.

## ACTIVITIES IN 2023/24

The Audit Committee, inter alia, engaged in the following activities during the financial year under review:

## FINANCIAL REPORTING SYSTEM

The Committee reviewed the financial reporting system adopted by the Group in the preparation and presentation of its quarterly and annual Financial Statements to ensure reliability of the processes and consistency of the accounting policies and methods adopted and their compliance with the Sri Lanka Accounting Standards (SLFRSs and LKASs) issued by The Institute of Chartered Accountants of Sri Lanka (ICASL), financial reporting requirements under the Companies Act No. 07 of 2007 and Listing Rules of the Colombo Stock Exchange / Securities and Exchange Commission Act.

The Committee also reviewed the key judgements applied in the preparation of Consolidated Financial Statements, which are described in the relevant accounting policies and detailed Notes to the Financial Statements on page 260 to 330.

The Committee, in its evaluation of the financial reporting system, also recognized the adequacy of the content and quality of routine management information reports forwarded to its members.

The Audit Committee obtained Statements of Compliance from the Business Unit Heads where appropriate. Having reviewed the financial reporting system, the Committee is satisfied that the system complies in all material respects with the regulatory and statutory requirements. The Committee reviewed the adequacy of disclosures and presentation formats of the draft Annual and Interim Financial Statements before recommending their publication to the Board and also adequacy of the content and quality of routine management information forwarded to its members.

The Committee engaged in discussion with the Company's External Auditor on the results of the External Auditors' examinations and their judgement on the acceptability of the accounting principles adopted by the Company.

The Committee recommended the Financial Statements to the Board for its deliberations and issuance.

### **INTERNAL CONTROL SYSTEMS**

The Committee reviewed the process to assess the effectiveness of the Internal Financial Controls that have been designed to provide reasonable assurance to the Directors that assets are safeguarded and the financial reporting system can be relied upon in preparation and presentation of Financial Statements.

The Hayleys Group Management Audit and Systems Review Department reports on key control elements and procedures followed by the Haycarb Group that are selected according to the Annual Audit Plan. The Annual Internal Audit Plan is approved by the Audit Committee and reviewed the progress on a quarterly basis in order to reflect the changing

business needs and to ensure new and emerging risks are considered. During the financial year 2023/24, six audits were performed. The Committee reviewed the findings and recommendations together with management's responses on the observations made by internal auditors and provided recommendations for improvement.

Follow up reviews were scheduled to ascertain that audit recommendations are being acted upon.

The Committee appraised the independence of the Group Management Audit and Systems Review Department in the conduct of their assignments.

### **RISK MANAGEMENT**

While the Board of Directors reserve the primary responsibility on business risk management, the Board establishes the responsibility to the Audit Committee to oversee the risk management process of the Company.

The Audit Committee reviewed the Risk Register prepared and presented by the management of the company in each of its meetings.

The Risk Register include key business risks on strategic, operational, financial, investment, governance, information technology and system security (ISS) aspects of the business.

The Management also reported to the Audit Committee, matters pertaining to sustainability/ ESG, as part of sustainability reporting. The Committee reviewed Sustainability Related Risks/Opportunities (SRROs) and Climate Related Risks/ Opportunities (CRROs), affecting the business.

The Committee reviewed the Risk Management framework adopted by the company including processes, practices and responsibilities of managing the identified risks.

### **EXTERNAL AUDIT**

During the year, the Committee reviewed the external audit scope and the strategy. The Audit Committee discussed the audit plan and the scope of the external audit with Messrs Ernst & Young. The Audit Results Report and the Management Letters issued by the External Auditors with regard to the Financial Statements and Internal Controls are circulated and reviewed at the Audit Committee.

The Committee reviews annually the appointment of the External Auditor and makes recommendations to the Board accordingly. The Committee is satisfied that the independence of the External Auditors had not been impaired by any event or service that gives rise to a conflict of interest. Due consideration has been given to the nature of the services provided by the Auditors and the level of Audit and non-audit fees received by the Auditors, in order to ensure that it did not compromise their independence.

The Audit Committee provides the opportunity to External Auditors to meet Audit Committee members independently, if necessary.

### **APPOINTMENT OF EXTERNAL AUDITORS**

The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young., continue as Auditors for the financial year ending 31st March 2025 after evaluating the scope, delivery of the audit, resources and the quality of the assurance initiatives taken during the year FY 2023/24.

The current Auditor Messrs Ernst & Young was initially appointed as External Auditor in 2010 and continues to hold that position at present. A partner rotation of the Auditors takes place periodically. A rotation of partner took place in financial year 2021/2022.

# AUDIT COMMITTEE REPORT

## COMPLIANCE

The Committee obtained representations from the management of the company on the adequacy of provisions made for possible liabilities and reviewed reports tabled by the Group companies certifying their compliance with relevant statutory requirements.

## ETHICS AND GOOD GOVERNANCE

The Committee continuously emphasized on upholding ethical values of the staff members. In this regard, Internal Code of Business Conduct and Ethics, the policy on Whistleblowing and Anti-Bribery and Corruption were put in place. The Policies were followed by educating and encouraging all members of the staff. All appropriate procedures are in place to conduct independent investigations into incidents reported through Whistle-Blowing or identified through other means. The Whistle-Blower Policy guarantees strict confidentiality of the identity of the Whistle-Blowers.

## SUPPORT TO THE COMMITTEE

The Committee received information and support from the Management during the year to enable it to carry out its duties and responsibilities effectively.

## EVALUATION OF THE COMMITTEE

An independent evaluation of the effectiveness of the Committee was carried out by the other members of the Board during the year. Considering the overall conduct of the Committee and its contribution on the overall performance of the Company, the Committee has been rated as highly effective.



**Yohan Perera**  
*Chairman- Audit Committee*

14th May 2024