

FREE LANKA CAPITAL HOLDINGS LTD

AUDIT COMMITTEE - TERMS OF REFERENCE

1. Establishment

The board of directors (the board) of Free Lanka Capital Holdings Ltd (FLCH) resolved, at its meeting held on 06th June 2011, to establish an Audit Committee as a sub-committee of the board.

2. Purpose

To assist the Board on fulfilling its corporate governance and overseeing responsibilities for the financial reporting process, the system of internal control, internal and external audit processes, and for monitoring compliance with laws and regulations. The external auditor's major dealings with the board will be through the audit committee.

3. Composition

The Audit Committee will consist of two members of the Board and one other member who is a non executive director with accounting and auditing expertise. The members, individually, will be independent and free from any relationship the Board believes would interfere with the exercise of each member's judgment as a member of the Committee.

4. Secretary

The CFO or a nominee of the company shall function as the secretary to the Audit Committee.

5. Appointments

The Board will nominate the members for the Audit Committee. Unless the Board appoints the Audit Committee chair, the members of the committee may designate a chair by majority vote. However, the chairman so appointed must be a person with accounting and auditing expertise.

6. Quorum

The quorum for an Audit Committee meeting shall be two.

7. Meetings

- 7.1 The audit committee is required to meet at least three times every year; at the planning stage of the audit, at which time the planned scope of the audit and the auditors recommendations on controls are considered, and before the issue of any interim and annual financial statements and the Board meetings approving the same, at which time any significant matters arising during the audit are considered.
- 7.2 The Committee also meets, as determined by the Chairman of the Committee and members may raise any matters considered desirable.
- 7.3 It may also meet separately with the divisional heads, officers, executives, consultants, employees, internal auditors, or external auditors.
- 7.4 Meeting agenda will be prepared and provided in advance to members, along with appropriate briefing materials.
- 7.5 Auditors are reporting to the audit committee, and are to be met without management present, and vice versa.
- 7.6 The secretary to the Audit Committee will keep the minutes of the meetings.
- 7.7 Minutes and recommendation of the Audit Committee are distributed at the next Board Meeting of the FLCH.

8. Payments to members

The Board may decide on remuneration, fees and reimbursement of expenses of members of audit committee.

9. Duties of the audit Committee

The role of the Audit Committee includes;

- 9.1 examining the accounting policies of the FLCH to determine whether they are appropriate and in accordance with the applicable reporting requirements;
- 9.2 ensuring the compliance with the general and specific laws and regulations;
- 9.3 ensuring that truth and fairness is reflected in the preparation and publication of the SEC's financial reports;
- 9.4 meeting regularly with the internal and external auditors to reinforce the independence of the auditors;
- 9.5 determining the appropriateness of internal audit procedures;

- 9.6 reviewing the performance of the auditors and to provide the auditors with confidential access to the Board;
- 9.7 referring matters of concern to the Board, as appropriate, and considering risk management matters;
- 9.8 establishing procedures to receive and address complaints regarding; accounting, auditing and internal controls, including establishing procedures to allow employees to submit anonymous complaints;
- 9.9 approving any non-audit services to be provided by the external auditors:
- 9.10 hiring and consulting outside experts in different fields of specialization;
- 9.11 Monitoring dealings in particular related party transactions;
- 9.12 Ensuring the competence of the external auditor's staff

10. Matters arising from an audit

- 10.1 The auditor ensures that the audit committee is informed about significant matters affecting the audit of the financial statements
- 10.2 The auditor communicates to the audit committee matters which, in the auditor's judgment, represent material control weaknesses in the design or operation of the internal control structure which could adversely affect the entity's ability to record, process, summarize, and report financial information consistent with the assertions of the Board in the financial report.
- 10.3 The auditors also reports additional information regarding the scope and results of the audit that may assist the audit committee in overseeing the financial reporting and disclosure process for which management is responsible.
- 10.4 The auditor may consider it appropriate to inform the audit committee of matters that have been reported to operational management and the nature of such matters reported. If undertaken, this procedure would ordinarily be applied to both written and oral reports to operational management.

11. Significant Accounting Policies

The auditor determines whether the audit committee is informed about the initial selection of and/or changes in material accounting policies or their application, and considers whether to include these matters in a report to the audit committee. Similarly, the auditor determines whether the audit committee is informed about the methods used

to account for material unusual transactions, and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

12. Management Judgments and Accounting Estimates

Accounting estimates may be an integral part of the financial report and are based on judgments by the relevant areas of management that reflect their knowledge and experience about past and current events and assumptions as to future events. Certain accounting estimates may be significant because of the possibility that future events affecting them may differ markedly from the assumptions made. The auditor determines whether the audit committee is informed about the process used to formulate material accounting estimates and about the basis for the auditor's conclusions regarding the reasonableness of those estimates.

13. Significant audit Adjustments

The auditor informs the audit committee about audit adjustments that could, in the auditor's opinion, either individually or in aggregate, have a material effect on the financial report. An audit adjustment, whether or not recorded by the entity, is a proposed correction of the financial report that, in the auditor's judgment, may not have been detected except through the auditing procedures performed. Matters underlying adjustments proposed by the auditor but not recorded by the entity could potentially cause future financial reports to be materially misstated, even though the adjustments are not material to the current financial report.

14. Other Information in Documents Containing Audited Financial Reports

The auditor discusses with the audit committee the respective responsibilities for other information in documents containing audited financial information, including procedures undertaken by the audit committee to determine that there is no material inconsistency with the financial report.

15. Disagreements with Other Areas of Management

The auditor discusses with the audit committee any disagreements with other areas of management that individually or in aggregate could be significant to the entity's financial report. Examples include disagreement over the application of accounting standards, reasonableness of estimates, scope of the audit, or disclosure in the financial report.

16. Difficulties Encountered in Performing the Audit

The auditor informs the audit committee of any serious difficulties encountered in performing the audit such as unreasonable delays in providing information for audit

purposes, unavailability of SEC personnel, or an unreasonable timetable in which to complete the audit.

17. Other Matters

- 17.1. The auditor consults with the audit committee regarding other matters such as litigation & claims, related party transactions and the work of internal auditors where appropriate.
- 17.2. The auditor consults with the audit committee to ascertain whether there are any other matters of which the auditor should be aware.

18. Approval of Financial Report

The auditor attends the meetings of the audit committee when the financial report is reviewed to enable all audit committee members to ask any questions they may have regarding the audit process. The auditor may also consider attending the meeting of the Board when the financial report is to be approved, to address any issues arising.

19. Planning the Audit

- 19.1 At the start of each audit, the auditor communicates the terms of the audit engagement with the audit committee.
- 19.2 The auditor reviews the scope of the external audit (particularly the identified risk areas), with the audit committee.
- 19.3 The auditor informs the audit committee of any developments that any affect the financial reporting of the entity and the Board's responsibilities, such as legislative changes and new accounting standards.
- 19.4 The auditor ensures that information regarding the planning of the audit, which may have been communicated to other areas of the management, is communicated to the audit committee on a timely basis as appropriate.
- 19.5 The auditor determines the extent to which the audit committee interacts with the internal audit function in the area of financial reporting and internal control. Where appropriate the auditor liaises with the audit committee regarding the coordination of internal audit functions in accordance with Sri Lanka Auditing Standard No. 24, "Considering the Work of Internal Auditing.
- 19.6 The auditor agrees with the audit committee and manages the information that the auditor intends to communicate to the audit committee.

20. Internal Auditing

- 20.1 There shall be an internal audit function within the FLCH.
- 20.2 The Board may decide to obtain the service of an outside firm of chartered accountants to act as the internal auditors.
- 20.3 The Board shall reserve the rights to determine the scope, terms and remuneration of such engagements on the recommendations of the audit committee
- 20.4 The role of internal auditors shall include:
 - 20.4.1 Review of the reliability and integrity of financial and operating information;
 - 20.4.2 Review of systems established to ensure compliance with policies, procedures, plans, laws and regulations impacting on operations and reports;
 - 20.4.3 Review of the means of safeguarding the assets of FLCH.
 - 20.4.4 Appraisal of economy, efficiency and effectiveness of each division, functions, activities and project;
 - 20.4.5 Assessing the different risks of the FLCH and review the process of risk management;
 - 20.4.6 Review the control and governance process of the SEC
- 20.5 The internal auditors shall prepare by monthly reports and submitted to the audit committee within thirty days, and in case of the special reports, within the time period specified by the Board.