



# **INTERNAL CONTROL POLICY**

**SAZGAR ENGINEERING WORKS LIMITED**



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## INTRODUCTION / POLICY STATEMENT

Sazgar Engineering Works Limited (the Company) is committed to the highest possible standards of honesty, excellence, consistency, fairness, integrity and accountability. Therefore, the Company has established a system of internal controls with well-defined control mechanism and delegation of authorities for different types of organizational activities.

The Internal control system of the Company is-comprising of the policies, procedures, processes, tasks and other aspects of the company in order to facilitate its effective and efficient operations by enabling it to timely respond to the significant business, operational, financial, compliance and other risks.

This policy therefore sets out the essential principles for the Company as well as the duties of the Board, Management, External Audit and Internal Audit function at Sazgar Engineering Works Limited.

## DEFINITIONS

### a) Internal Control

Internal Control is a process, affected by an entity's board of directors, management and other personnel, designed to reasonably manage risk affecting the achievement of objectives in the following categories:

- Effectiveness, efficiency and accuracy of operations;
- Reliability and relevance of reporting;
- Compliance with applicable laws and regulations;
- Safeguarding of assets and resources; and
- Appropriate governance.

### b) Risk

Risk is the chance of happening of an event that can prevent the Company from achieving its objectives.

### c) Control Deficiency

Control that is either missing or is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, any misstatement / error / mismanagement on a timely basis; or



Failure to execute a control that individually or together with other failures would clearly result in distortions in financial statements or financial loss.

**d) Management**

With respect to this policy, management includes Chief Executive, Executive Directors, Company Secretary, Chief Financial Officer and General Managers.

## SCOPE OF POLICY

The Internal Control Policy applies to all Company's employees (permanent, part time and contractual), Management, the Board of Directors and its divisions & business units.

## POLICY OBJECTIVES

Internal Control system allows the organization to stay focus on the business objectives, while operating as per the requirements of relevant policies, laws and regulations thereby minimizing the associated risks. Internal controls promote efficiency and effectiveness of operations and supports reliable reporting and compliance with laws and regulations.

The **objectives** of the Internal Control Policy are to provide reasonable assurance to the company's Board that:

- Company's plans and business objectives, are achieved;
- The actions of the company's Board, Management and Employees are in compliance with the approved policies, procedures and all relevant laws and regulations;
- Company's assets and resources, including its people, systems and data/information are adequately protected;
- Risk that could identify in the risk management process of the company are managed effectively;
- Data and information published either internally or externally is accurate & reliable.



## ESSENTIAL POLICY PRINCIPLES

Internal controls must be consistently applied in order to protect the company and its stakeholders from possible losses. In this context the Internal Control Policy will be managed within the following essential principles:

- Control Environment;
- Risk Assessment and Management;
- Control Activities;
- Information & Communication; and
- Self-Assessment & Monitoring Activities

### a) Control Environment

Control environment is the foundation on which an effective system of internal control is built and operated in an organization.

A sound control environment is based on; the integrity, ethics, and competence of personnel; the organizational structure; policies & procedures; oversight by the board of directors, board committees and management; management's philosophy and operating style.

For effective internal controls, an appropriate control environment which exhibits the following factors has been effectively placed:

- Company has established a code of conduct that is acknowledged by its employees.
- Board of directors reviews the policies and procedures implemented periodically and ensures their compliance.
- Company's Employees, Management and Board demonstrate a commitment to integrity and ethical values.
- Board and its Sub-Committees are independent from Management and are responsible for exercising oversight for the development and performance of internal controls.
- Board of directors has setup an independent internal audit function in order to monitor the compliance of internal control policies/procedures and to report to the board instances of non-compliance.



- Reporting structure has been established and authorities & responsibilities have been delegated.
- Human resource policies and procedures are in place to attract, develop & retain competent employees.
- Audit Committee of the Board ensures that the appropriate corrective actions have been taken when instances of non-compliance are reported.

#### **b) Risk Assessment and Management**

Risk assessment involves a dynamic and iterative process for identifying and analyzing risks to achieve the entity's objectives. Every entity faces a variety of risks from external and internal sources, this creates a compulsion for the company that, as part of an internal control system, these risks should be identified, assessed and mitigated.

Keeping in view the importance of this process:

- Risk Management policy has been developed to guide the Company on assessing and managing risks that threaten the achievement of Company's objectives.
- The Company maintains a risk register.
- The Risk Management Committee has been constituted by the Board of Directors for the management of risks.

#### **c) Control Activities**

Control activities are actions (described in policies, procedures, and standards) that help management to mitigate risks in order to ensure the achievement of objectives.

Control activities may be preventative or detective in nature and may include a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, physical controls, performance reviews and segregation of duties.

Management and staff has developed and implement control activities keeping in view the importance of control activities in internal control system:

- That contribute to the mitigation of risks to acceptable levels;
- Over technology to support the achievement of objectives; and
- That ensures the reliability of financial and non-financial reporting as well as compliance with applicable laws and regulations.



#### **d) Information & Communication**

Information & communication is necessary for the company to carry out its internal control responsibilities in support of the achievement of its business objectives. Communication occurs both internally and externally. Communication enables all personnel to understand the internal control responsibilities.

Management of the company ensures that it is in compliance with International Financial Reporting Standards (IFRS), the requirements of Listed Companies (Code of Corporate Governance) Regulations and other regulatory laws as applicable to the Company.

Furthermore, key elements of information and communication system include the following:

- Management ensures the circulation of accurate, relevant and quality information to support the smooth functioning of the internal control system.
- Policies and procedures approved by the board are made available to all employees across the organization.
- Company has established mechanisms for communicating incidents, concerns, and other matters.
- Internal communication of objectives and responsibilities for internal controls, necessary to support the functioning of internal control system.

#### **e) Self-Assessment & Monitoring Activities**

Monitoring includes the process for evaluating the internal control system of the company and reporting deficiencies in a timely manner to those responsible for taking corrective actions, including management and the board of directors, as appropriate.

The key activities relating to the monitoring include:

- Review of internal control system by Internal Audit function.
- Review of control activities by the External Auditors.
- Comprehensive reporting of deficiencies to the Audit Committee and management on quarterly basis for timely resolution and appropriate action.
- Adequate documentation of management responses to audit findings so that an adequate follow-up could be made.



## ROLES & RESPONSIBILITIES

The board of directors, management and other personnel of Company are responsible for establishing, maintaining, and operating an appropriate internal control system on an ongoing basis.

### a) Board of Directors

Board of Directors of the Company is responsible for an adequate and effective internal control system in the company. Board would also be responsible to supervise the general conduct of the company and for the fair presentation of the financial statements and duties as stated in Companies Act and Listed Companies (Code of Corporate Governance) Regulations and other applicable laws, rules, regulations for the time being in force.

### b) Management

Management of the company is responsible for implementing policies and procedures as approved by the board; maintaining an organizational structure which constitutes delegation of responsibilities & authorities; ensuring that delegated responsibilities are effectively carried out; and monitoring the adequacy and effectiveness of the internal control system.

### c) Internal Audit

The role of the Internal Audit Function (IAF) is to provide independent assurance that whether the internal controls are properly designed, implemented and working effectively, and make recommendations for the improvement of internal controls. Furthermore, the Internal Audit function also assists the company to strengthen its internal governance.

### d) External Audit

The key responsibility of external auditors is to perform an independent assessment of the financial reporting system and related internal controls of the Company.





## **TERM**

This Policy shall be enforced on the date of its approval and may only be modified by resolution from the Company's Board of Directors.

## **APPROVAL**

The Board of Directors of the Company in its meeting held on September 24, 2020, considered and approved the amendments in this Policy.

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