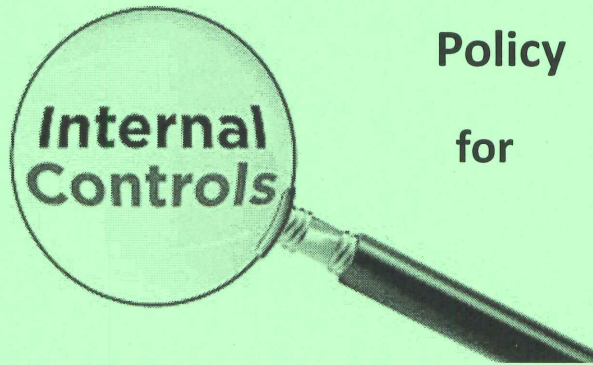




**First UDL Modaraba**




**Policy  
for**

**Implemented by: Board of Directors**

Document no: FUDLM/SOP-4/01.12.19

Page 1 of 5

*Samir Hussain* — 



## Objective and Scope

The Board of Directors recognizes that the establishment of a sound system of internal control is a fundamental requirement of company act and modaraba regulations and necessary for good corporate governance. This policy describes the manner in which the First UDL Modaraba (FUDLM) understands, design and implement sound internal control to mitigate risks and achieve objectives of effective financial reporting.

The policy complies with requirements of applicable laws to Modaraba.

## Internal Controls:

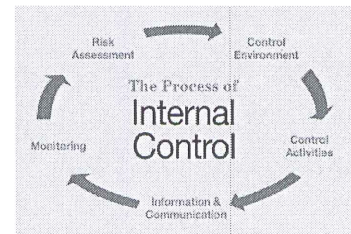
Internal control is a process, affected by board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives including:

- 1) Performance Objectives
  - To ensure efficiency and effectiveness of operations and asset protection
- 2) Information Objectives
  - To ensure reliability, completeness and timeliness of financial and management information and adequacy of disclosure.
- 3) Compliance Objectives
  - To ensure compliance with laws and regulations, internal policies, procedures.

## Components of Internal Control System

An effective internal control system consists of following interrelated components:

- a) Risk recognition and assessment
- b) Control environment
- c) Control activities and segregation of duties;
- d) Accounting, information & communication;
- e) Self-assessment or monitoring and correcting deficiencies



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Components of internal control system are outlined below for understanding of FUDLM personnel, certificate holders, prospective investors and other stakeholders:

**a) Risk recognition and assessment**

From an internal control perspective, risk assessment involves; identification and evaluation of factors, both internal and external, that could adversely affect performance, information and compliance objectives of FUDLM.

**b) Control Environment**

The success of control environment is judged according to; the integrity, ethics, and competence of personnel; the organizational structure, oversight by the board of directors and senior management; management's philosophy and operating style; and direction provided by the BOD' committees, especially the audit and risk management committees; personnel policies and practices and; external influences affecting operations and practices.

**c) Control activities and segregation of duties**

Control activities involve:

- (a) Establishment of control policies and procedures.
- (b) Verification that the control policies and procedures are being complied with.

It is desired that control activities should involve all levels of personnel in the FUDLM, including key management as well as front line personnel. Instituting an appropriate controls structure ensures the efficacy of an internal control system.

**d ) Accounting, information & communication**

An **accounting system** is adequate if it properly identifies, assembles, analyzes, classifies, records, and reports the business transactions in accordance with prescribed formats.

The adequacy of **information systems** is determined by the type, number, and depth of reports it generates for operational, financial, managerial, and compliance-related activities and the access and authorization to information systems in such a manner that information remains understandable and useful for audit trail.

**communication systems** is established by the fact that it imparts significant information throughout the organization (from the top down and from the bottom up, and laterally), ensuring that personnel understand whatever has been communicated and, on the other hand, communication system should ensure that significant information is imparted to external parties such as regulators, certificate holders/shareholders, and customers.

**e ) Self-assessment or monitoring and correcting deficiencies**

It includes Board and senior management oversight of the internal control, control reviews, and audit findings, resolution and appropriate action. Board or board committee or senior management review of the qualifications and independence of the personnel evaluating controls (e.g., external auditors, internal auditors, or line managers).




## Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It is an appraisal system established by management for the review of the accounting and internal control systems as a service to the entity.

Best practice for internal audit function is to:

- Establish and maintain an independent, adequate, and competent staff.
- Acting in accordance with recognized international standards for the practice of internal auditing.
- Reporting to a sufficiently high level in the organization to be able to perform its duties independently.
- Contribute to ongoing effectiveness of control systems and produce on quarterly basis, a report on internal control system and significant findings and present it to the Audit Committee of the Board.

### Audit Committee (AC) of FUDLM:

The BOD has constituted the audit committee for effective monitoring of internal control system and internal audit functions. The audit committee comprises of:

Mr.Abul Rahim Suriya	Chairman
Mr.Majid Hasan	Member
Ms.Farah Qureshi	Member

The BOD has documented the terms of Reference of audit committee.

### Internal Audit Function of FUDLM

The BOD has set up an internal audit department comprises of Head of Internal Audit and support staff for monitoring of effectiveness of internal control systems. Head of Internal audit functionally directly report to the audit committee of BOD and administratively to the chief executive officer.

All requirements of code of corporate governance have been taken in due consideration for appointment and assignment of responsibilities to head of internal audit.

Internal Audit - Standard Operating Procedure are in place for continuous monitoring and to provide written guidelines for audit processes employed by the Internal Audit Department.

*From Mr. -*

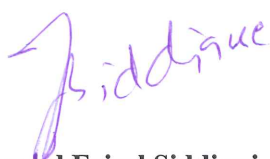

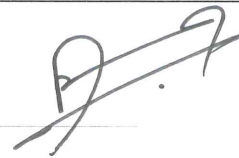
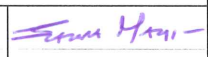


## External Auditors, Shariah Advisor, Regulators and Other External Bodies

External auditors, Shariah advisor, Regulators, and other external bodies reside outside the organization’s structure, but they have an important role in the organization’s overall governance and control structure. Regulators set requirements intended to strengthen the controls in an organization and external auditors and shariah advisor perform an independent and objective function to assess the whole or some part of the first, second, or third line of defense (front line, risk management, Internal Audit).

When coordinated effectively, external auditors, regulators, and other groups outside the organization can be considered as additional lines of defense, providing assurance to the organization’s certificate holders/shareholders, including the governing body and senior management.

### Review of Policy

Next review- As required.

Prepared by	Reviewed by		Approved by			
 <b>Muhammad Faisal Siddiqui</b> Head of Credit Administration, Risk Management dept & Chief Compliance Officer(HCARD)	 <b>Iqbal Ahmed</b> Head of Internal Audit	 <b>Syed Aamir Hussain</b> Chief Financial Officer	<b>Board of Directors</b>			
			<b>Shuja Malik</b>	<b>CEO</b>		
			<b>Non Executive Director</b>			
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			<b>Farah Qureshi</b>	