



INTERNAL CONTROL POLICY

KOHAT CEMENT COMPANY LIMITED

Introduction

Internal control is broadly defined as a process, affected by an entity's board of directors including its audit committee, management, internal audit and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.
- Safeguarding of assets and resources and reputation of the Company.

Any system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. The systems that have been established can only provide reasonable, and not absolute, assurance against any discrepancies.

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;
- Control Activities;
- Information & Communication; and
- Monitoring Activities.

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; oversight by the board of directors and senior management; management's philosophy and operating style. Control Environment shall be built in the Company by ensuring that:

- Company establishes a Code of Conduct that is acknowledged by all in the company;
- Senior Management reviews the policies and procedures periodically and ensures their compliance;
- Company's Staff, 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 sets up 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 lines/structure established and authorities & responsibilities have been delegated.
- Human resource policies and procedures are in place to attract develop & retain competent staff.
- Audit Committee of the Board ensures that the appropriate corrective actions have been taken when instances of non-compliance are reported.

Risk assessment involves a dynamic and iterative process for identifying and analyzing risks to achieving the entity's objectives. Risk assessment forms the basis for determining how risks will be managed. 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 organization on assessing and managing risks that threaten the achievement of the entity's objectives.
- Entity maintains a risk register that is updated at least annually depending upon changes in the entity's operations or other relevant factors.
- The Audit committee has assigned by the Board of Directors for the identification and evaluation of factors, both internal and external, that could adversely affect the objectives of company

Control Activities are the policies, procedures, techniques, and mechanisms that help ensure that management's response to reduce risks identified during the risk assessment process is carried out. Control activities may be preventive or detective in nature and may include a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, physical controls and performance reviews. Segregation of duties is typically built into the selection and development of control activities.

Understanding the importance of internal control activities in internal control system, management and staff develop and implement control activities:

- That contribute to the mitigation of risks to acceptable level;
- 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.

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

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.
- Approved policies and procedures 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.
- Communication with external stakeholders regarding matters affecting the functioning of the internal control system.

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 Senior Management and Board of Directors, as appropriate. The key activities relating to 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 Senior 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 and Responsibilities:

Board of Directors – The Board is responsible for ensuring an adequate and effective internal control system in the Company. Board members are objective, capable and inquisitive. They have knowledge of the Company's activities and environment, and commit the time necessary to fulfill their board responsibilities.

Audit Committee – The audit committee shall ascertain that the internal control systems including financial and operational controls, accounting systems are adequate and effective. The committee shall periodically review the internal control policy and shall keep monitoring the system through internal audit reports.

Management – The CEO has the pivotal role in designing and implementing the internal control system in the Company to safeguard assets, resources, reputation and interest of the company and shareholders. Senior Management assists the CEO in discharge of his responsibilities in formulating and implementing the internal control system.

Internal Audit – Internal audit plays an important role in evaluating the effectiveness of internal control systems, and contribute to ongoing effectiveness. Because of the position and authority, internal audit plays a significant monitoring role.

External Audit – External auditors communicate to the Board of Directors any significant deficiencies in internal control system while performing the annual audit of the Company.

Other Personnel – Internal control is, to some degree, the responsibility of everyone in the Company and therefore an explicit or implicit part of employee's job description. Hence all personnel are responsible for communicating upward problems in operations, non-compliance with the ethics and business practices and other policies of the company.