



## Governance of Risk and Internal Control Measures (GRICM)

### Meaning

**Governance** describes the overall management approach through which senior executives direct and control the entire organization, using a combination of management information and hierarchical management control structures. Governance activities ensure that critical management information reaching the executive team is sufficiently complete, accurate and timely to enable appropriate management decision making, and provide the control mechanisms to ensure that strategies, directions and instructions from management are carried out systematically and effectively.

**Risk Management** is the set of processes through which management identifies, analyzes, and, where necessary, responds appropriately to risks that might adversely affect realization of the organization's business objectives. The response to risks typically depends on their perceived gravity, and involves controlling, avoiding, accepting or transferring them to a third party. Whereas organizations routinely manage a wide range of risks (e.g. technological risks, commercial/financial risks, information security risks etc.), external legal and regulatory compliance risks are arguably the key issue in GRICM.

**Compliance** means conforming with the stated requirements. An efficient and effective compliance function is the result of well-designed and consistently implemented internal controls. At an organizational level, it is achieved through management processes which identify the applicable requirements (defined for example in laws, regulations, contracts, strategies and policies), assess the state of compliance, assess the risks and potential costs of non-compliance against the projected expenses to achieve compliance, and hence prioritize, fund and initiate any corrective actions deemed necessary.

**Internal Controls** includes all of the policies and procedures management uses to achieve the following goals.

- **Safeguard company assets** - well designed internal controls protect assets from accidental loss or loss from fraud
- **Ensure the reliability and integrity of financial information** - Internal controls ensure that management has accurate, timely and complete information, including accounting records, in order to plan, monitor and report business operations
- **Ensure compliance** - Internal controls help to ensure the company is in compliance with the many federal, provincial and local laws and regulations affecting the operations of our business
- **Promote efficient and effective operations** - Internal controls provide an environment in which managers and staff can maximize the efficiency and effectiveness of their operations
- **Accomplishment of goals and objectives** - Internal controls system provide a mechanism for management to monitor the achievement of operational goals and objectives



## **Purpose**

### **Governance, Risk and Internal Control Policy Objectives**

- Improve strategic business decisions by clearly defining the associated risks and opportunities.
- Use proactive and effective monitoring to minimize unexpected incidents.
- Protect and enhance our reputation by capitalizing on business opportunities with minimal risk.
- Increase the efficiency of our organization and lower the cost of compliance.
- Avoid fines, penalties and damage to reputation.
- Obtain a clear, consistent view on risk and risk appetite.
- Use the right communication to enhance stakeholder relationships.
- Be compliant with governance and regulatory requirements as stated in Corporate laws applicable in Pakistan.

### **A. Governance**

- **Participation** – all men and women should have a voice in decision-making, either directly or through whistle-blower mechanism that represent their intention. Such broad participation is built on freedom of association and speech, as well as capacities to participate constructively.
- **Consensus orientation** – good governance mediates differing interests to reach a broad consensus on what is in the best interest of the company and, where possible, on policies and procedures.
- **Strategic vision** – leaders and the public have a broad and long-term perspective on good governance and human development, along with a sense of what is needed for such development. There is also an understanding of the historical, cultural and social complexities in which that perspective is grounded.
- **Responsiveness** –Managers and processes try to serve all stakeholders.
- **Effectiveness and efficiency** – Managers and other staff produce results that meet needs while making the best use of resources.
- **Accountability** – Decision-makers in the organization are accountable to the board.
- **Transparency** – transparency is built on the free flow of information. Processes, information are directly accessible to those concerned with them, and enough information is provided to understand and monitor them.
- **Equity** – all men and women have opportunities to improve or maintain their wellbeing.
- **Rule of Law** – legal frameworks should be fair and enforced impartially



## **B. Risk Management**

- All business decisions will be made with the prior information and acceptance of risk involved.
- The Risk Management Appetite of the management shall provide for the enhancement and protection of business value from uncertainties and consequent losses
- All employees of the company shall be made aware of risks in their respective domains and their mitigation measures
- The risk mitigation measures adopted by the company shall be effective in the long-term and to the extent possible be embedded in the business processes of the company
- Risk tolerance levels will be regularly reviewed and decided upon depending on the change in company's strategy
- The occurrence, progress and status of all risks will be promptly reported and appropriate actions be taken thereof.

## **C. Internal Controls and Compliance**

### ***Responsibility***

**Management Responsibility:** Administrative management is responsible for maintaining an adequate system of internal control. Management is responsible for communicating the expectations and duties of staff as part of a control environment. They are also responsible for assuring that the other major areas of an internal control framework are addressed.

**Staff Responsibility:** Staff and operating personnel are responsible for carrying out the internal control activities set forth by management.

### ***Framework for Internal Control***

The framework of a good internal control system includes:

**Control environment:** A sound control environment is created by management through communication, attitude and example. This includes a focus on integrity, a commitment to investigating discrepancies, diligence in designing systems and assigning responsibilities.

**Risk Assessment:** This involves identifying the areas in which the greatest threat or risk of inaccuracies or loss exist. To be most efficient, the greatest risks should receive the greatest amount of effort and level of control. For example, rupee amount or the nature of the transaction (for instance, those that involve cash) might be an indication of the related risk.

**Monitoring and Reviewing:** The system of internal control should be periodically reviewed by management. By performing a periodic assessment, management assures that internal control



activities have not become obsolete or lost due to turnover or other factors. They should also be enhanced to remain sufficient for the current state of risks.

**Information and communication:** The availability of information and a clear and evident plan for communicating responsibilities and expectations is paramount to a good internal control system.

**Control activities:** These are the activities that occur within an internal control system. These are fully described below.

#### ***Internal Control Activities and Best Practices***

Internal control activities are the policies and procedures as well as the daily activities that occur within an internal control system. A good internal control system should include the control activities listed below. These activities generally fit into two types of activities.

**Preventive:** Preventive control activities aim to deter the instance of errors or fraud. Preventive activities include thorough documentation and authorization practices. Preventive control activities prevent undesirable "activities" from happening, thus require well thought out processes and risk identification.

**Detective:** Detective control activities identify undesirable "occurrences" after the fact. The most obvious detective control activity is reconciliation.

With a good internal control system in place, other considerations to keep in mind include:

- Regularly communicate updates and reminders of policies and procedures to staff through emails, staff meetings and other communication methods.
- Periodically assess risks and the level of internal control required to protect company assets and records related to those risks. Document the process for review, including when it will take place. *(Example: Determine that all security activities, reconciliation processes and separation of duties will be reviewed annually)*

Management is responsible for making sure that all staff is familiar with company policies and changes in those policies.

#### **Compliance**

- Corruption will not be tolerated.
- The Company is conscious of its responsibility to protect health and the environment and ensure people's safety.
- The provisions of all applicable and relevant national and international foreign trade laws will be observed.
- Every employee is obligated to treat confidentially any internal information that could affect the price of the company's stock.
- Internal control systems must provide for the proper documentation of key business processes. Controls must be established to ensure that all transaction details relevant for accounting purposes are fully and correctly captured.



- All employees are expected to behave in a friendly, objective, fair and respectful manner toward colleagues and third parties. Discrimination or harassment of any kind will not be tolerated.
- Confidential company information must not be disclosed to any third party or made public. Employees must respect same legal rights of other entities in the same manner.
- All employees must always keep their personal interests separate from those of the company. Personal decisions and business relationships with third parties must also be based solely on objective criteria.
- The company endeavors to be cooperative in its dealings with all authorities and government agencies.
- The Company will put in its utmost efforts to ensure that all information communicated to the regulatory authorities is correct, complete and provided in an open, timely and understandable manner.