# KEY ELEMENTS OF INTERNAL CONTROL POLICY

This document summarizes the key elements of Biafo Industries Limited's Internal Control Policy, which establishes a company-wide framework of internal control in the organization.

## 1. Purpose & Framework

The Policy provides reasonable assurance over following objectives.

- **Operations –** Effectiveness and efficiency of operations, including safeguarding assets and explosives inventory
- **Financial Reporting –** Reliability, accuracy and timeliness of financial and management reporting
- **Compliance –** Compliance with applicable laws and regulations
- **Fraud Prevention –** Prevention and timely detection of fraud, corruption, error and irregularity

## 2. Scope

Applies to the Board, all management and all employees (permanent, contractual, and outsourced) across the organization. It Covers financial, operational, compliance, and IT controls.

## 3. Regulatory & Governance Backdrop

- Companies Act, 2017
- SECP Listed Companies (Code of Corporate Governance) Regulations, 2019
- Pakistan Stock Exchange Rule Book
- Explosives Act, 1884 and Explosives Rules
- Taxation, labour, and environmental/health/safety legislation
- Internal policies: Code of Conduct, Anti-Fraud & Whistleblowing, Procurement, IT Security, HSE

## 4. Policy Components

### 4.1 Control Environment

- The Board and senior management promote a culture of integrity and ethics.
- Audit & Risk Management Committee oversees control design and effectiveness
- Documented organizational structure and Schedule of Authority / Delegation of Financial Powers
- HR policies reinforcing competence, including certification for explosives-handling staff

### 4.2 Risk Assessment

A structured risk assessment covering financial reporting, operational (incl. process safety), compliance, fraud, and IT risk resulting in a risk register reviewed by the Audit Committee.

### 4.3 Control Activities

- **Authorization & Approval –** transaction limits per Schedule of Authority; explosives sales require license/end-use verification
- **Segregation of Duties –** Responsibilities for initiating, authorizing, recording, and safeguarding transactions are appropriately separated.
- **Safeguarding of Assets –** Adequate controls are in place to protect assets through restricted access and periodic verification and reconciliation
- **Documentation & Record-Keeping –** SOPs for key processes; record retention per statutory schedule
- **IT Controls –** role-based least-privilege access, change management, automated application controls
- **Explosives-Specific Controls –** Explosive security, effective track & trace system and regular HSE audits ensure the safe custody and handling of explosives
- **Financial Reporting Controls –** closing procedures, reconciliations, related-party transaction approval/disclosure

### 4.4 Information & Communication

- Timely management information (production, sales, safety, financials) to management and Board
- Policy communication with employee acknowledgement at induction and periodically thereafter
- Confidential whistleblowing/fraud-reporting mechanism for employees, suppliers and stakeholders

### 4.5 Monitoring Activities

- **Internal Audit –** independent, risk-based annual plan, reports to Audit Committee
- **External Audit –** statutory auditors evaluate controls via the management letter process
- **Directors' Statement –** annual Board confirmation that controls are soundly designed and effective

## 5. Roles & Responsibilities

| Role | Key Internal Control Responsibilities |
|---|---|
| Board of Directors | Approves policies and disclosures and retains overall responsibility for the Company's system of internal controls. |
| Board Audit Committee | Oversees audit; reviews risk assessment & mitigation, control deficiencies, related-party transactions and financial statements. |

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|---|---|
| Chief Executive Officer | Ensures company-wide implementation and adequate resourcing of internal control. |
| Chief Financial Officer | Owns financial/IT control design; certifies financial statements to Board and Audit Committee. |
| Internal Audit | Independently tests and reports on control effectiveness; tracks remediation. |
| Department / Process Owners | Implement and operate controls; perform self-assessments; remediate weaknesses. |
| All Employees | Comply with policy and SOPs; report suspected breaches, fraud or safety concerns. |

## 6. Fraud Prevention & Whistleblowing

Biafo maintains a zero-tolerance approach to fraud, corruption, and material control breaches. All such incidents are reported through the Whistleblowing Policy and investigated by, or under the oversight of, the Audit Committee. Appropriate disciplinary and corrective actions are taken where warranted.

## 7. Limitations of Internal Control

The Policy provides reasonable, not absolute, assurance. Inherent limitations include human error, collusion, management override, and cost-benefit constraints on control design.