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Kazakhstan Ijara Company

Shari'a Audit Report

2020



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REVIEW BUREAU

In The Name of Allah Ever Gracious Ever Merciful

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Section I

1. Introduction:

This report has been prepared after conducting the Shari'a audit ("Audit") for Kazakhstan Ijara Company ("Company") for the year ended December 31, 2020. In compliance with the agreement of appointment, our responsibility as Shari'a Auditors along with Shari'a Supervisory Board ("SSB") for the Company is to carry out Shari'a Audit in accord with the scope of work agreed upon with Management (the "Management").

2. Standards and Guidelines:

The audit was conducted in light of:

- Shari'a guidelines issued by the SSB of the Company.
- Taking into consideration the Shari'a standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions standards ("AAOIFI").

3. Responsibility:

The Management is responsible for ensuring that the financial arrangements, contracts and transactions having Shari'a implications, entered with its clients/second party, other financial institutions and stakeholders and related policies, procedures and systems are, in substance and in their legal form, in compliance with the requirements of Shari'a rules and principles laid down by the SSB. The management is also responsible for:

- Design, implementation and maintenance of appropriate internal Shari'a control procedures with respect to such compliance and maintenance of relevant product documents approved by the SSB, internal control manuals and Islamic accounting records;
- Prevention and detection of fraud and breaches in Shari'a Compliance for identifying and ensuring that the Company complies with SSB requirements, laws and regulations applicable to its activities;
- Arranging trainings and / or orientation programs on Islamic banking and finance for the staff and appropriate training programs for senior executives to improve their understanding and general acumen in Islamic finance;
- Arranging programs on a regular basis for orienting and sensitizing the key executives about the business utility and importance of enabling Shari'a compliance environment and the key distinguishing features of Islamic finance products vis-à-vis conventional banking products; and

- Providing us with access to all information of which you are aware that is relevant to the compliance with the Shari'a rules and principles such as records, source documentation and other matters, additional information that we may request for the purpose of the engagement; and unrestricted access to persons from whom we determine it necessary to obtain evidence.

4. *Scope of the Audit:*

The Shari'a Audit was carried out in accordance with the professional Auditing standards laid down by AAOIFI Governance Standards [GSIFI 2] and in accord to the guidelines laid down by the SSB. Our review covered the following scope:

- Analyzing the Products' Deals and transactions related processes and identifying internal controls in place to address significant risks;
- Evaluating the effectiveness of the control procedures in mitigating the identified risks;
- Testing to confirm if the products dealings and transactions are operating as intended by SSB's approved directives and guidelines.
- SSB approval for each the Product and also the Management adherence to the Shari'a directives;
- Completeness of documentation required to execute transactions;
- Activities performed by departments.
- Administration of the documentation and their execution.
- Follow up on the observations as noted in the last Audit cycle.

5. *Objectives and Notes:*

The main objective of the report is to evaluate the products and control procedures relating to Shari'a compliance and governance structure and operations of the Company in light of Shari'a directives and guidelines issued by the SSB. This work is not primarily directed towards the discovery of weaknesses (other than those which would influence us in forming such a view) or the detection of fraud and should not, therefore, be relied upon to show that no other weaknesses exist. Accordingly, our Shari'a Audit would not necessarily allow us to identify all possible improvements that a more exhaustive systems review might develop. Our observations contained herein are of three types:

- Observations relating to the Financial Statements of the Company: These observations aim to assess the Company's financial dealings as reflected on the Financial Statements; This is done by verifying the sources of funds, nature of the investments carried out during the year and review the Zakat calculation mechanism.



- Observations on the executed transactions: These observations are a result of the Audit procedures carried out on the Shari'a compliant products. They exhibit shortcomings in the implementation and execution of such products in light of the directives approved by the SSB. The objective of these remarks is to support and improve the Company's internal Shari'a supervisory systems and thus improve the level of compliance with the approved Shari'a standards and guidelines.

- Observations on activities of the different departments of the Company: The purpose of these observations is to review the Shari'a control systems of the departments making up the Company, which aims to ensure work within these departments is in accordance with the policies and procedures that govern its activities and that the different departments complement each other to better comply with the approved Shari'a standards and guidelines.

6. Rating:

The observations in the report differ in terms of the amount of risk according to their consequences. This is indicated by each observation and according to the risk measures shown in the following table:

Observation category	Risk Rating
High/Serious impact on business performance, the achievement of its objectives, or serious implications on general/controls or adherence to internal or external requirements.	High
Moderate impact on the overall position of the business or the business division on its own or significant implications on general/ controls or adherence to internal or external requirements.	Moderate
When an absence, weakness, or deficiency in controls exists that has or could have limited/low impact on the immediate or future performance of the business division but still requires attention.	Low

7. Confidentiality:

The contents of this report are strictly confidential and are being submitted to the Management of the Company and are not to be distributed to the divisions or departments not involved in the Audit process or which do not have the authority to respond to the observations made hereunder.

Section II

Observations:

In continuation of the scope of review and to support and develop the internal Shari'a supervision and controls, we viewed the operations of the following departments:

1. Finance Department:

We have examined the financial statements for the year ended 31st December 2020 in accordance with agreed-upon Shari'a Guidelines, and below are our observations:

- **Investments:**

It has been verified that the Company has invested its cash in ways that do not conflict with Shari'a guidelines.

- **Debt:**

After reviewing the financial statements of the Company, it became clear that there were no payments, loans, or facilities that were not in accordance with Shari'a standards.

Observation	Risk Rating: Medium	
	Impact	Recommendation
During our review process, it was observed that while a total of Tenge 14,250.00 was disposed to charity during the year, however, the balance in the Charity account was Tenge 12,884.00 at year end which was not disposed.	This arises the doubt that the company is benefitting from the funds placed in Charity Account. While it is also not in line with the directives and guidelines of the SSB which requires to dispose the Charity amount in full.	The amount of Tenge 12,884.00 needs to be disposed to an approved Charity body after obtaining the approval from the SSB. Alternatively, the Company can draft a charity disposal plan and present it to the SSB for review and approval.
Management Response	Responsibility	Target Date
To develop the draft a charity disposal plan for 2020-2021.	CFO	26.05.2021

- **Zakat:**

There were no observations on the method of calculation of the Zakat as it has been calculated in accordance with the Shari'a Standard No. 35 of AAOIFI.

Observation	Risk Rating: Medium	
	Impact	Recommendation
During our assignment, we observed that the management had calculate the Zakat for financial year ended 31-Dec-2019 and the financial year ended 31-Dec-2020 but did not notify the shareholders of the Zakat amount payable.	This is not in line with SSB guidelines and directives and will not clear the company from its responsibility of notifying the Zakat payable by the Shareholders.	The management should notify the shareholders of the Zakat amount payable.
Management Response	Responsibility	Target Date
Management will notify the shareholders of the Zakat amount payable AGSM incoming meeting on 29 June 2021.	KIC's Management	29.06.2021

2. Operations Department:

The audit process included the review of the approved products represented by Murabaha, and Ijarah documents in addition to the contracts executed by the Company with the relevant parties. A sample was selected from the transactions represent 20% of total number of transactions to ensure that they are being carried out in accordance with the Shari'a guidelines approved by the SSB. During the assignment, we found no Shari'a observation.

3. Compliance Department:

During the audit process, the policies and procedures of the Company and its departments along with the internal audit reports, were examined. There were no Shari'a observations found in the department's activities.

4. Human Resources Department:

After reviewing the overall work of the Human Resources department, it was found that the management concluded several administration agreements with several parties and no Shari'a observations have been found.

All praise is due to Allah...



26/05/2021

Appendix I

ASSUMPTIONS

Our Shari'a Audit is based upon the assumption (which may or may not be the case) that:

- a) All signatures and seals on all documents reviewed by us are genuine, all documents provided to us as certified copy or copy documents (whether provided in hard copy or electronically) are complete and conform to the originals approved by the Shari'a Supervisory Board, and all documents submitted to us as originals are genuine and complete and all translations are accurate translations of the original text thereof;
- b) All documents examined by us are and remain up-to-date and effective and have not been amended or supplemented;
- c) None of the parties to the Agreements is carrying out activities are breach of any regulations issued by the relevant central authority or other competent authority in the country;
- d) The documents which we have examined and audited, and on which we base this report, are in the form in which the documents were executed;
- e) Any translated document that we have reviewed is an accurate translation of the original text thereof;
- f) All parties involved in the executed Agreements have the power and legal capacity to enter into, perform and exercise its rights under the Agreements to which it is a party and the Agreements have been (in the case of the Executed Agreement) or will be (in the case of the Draft Agreements) duly executed and where applicable delivered by each party in accordance with all applicable laws;
- g) Each statement of fact made to us by or on behalf of the Company or any other party or otherwise contained in the audited Agreements remains true, complete and accurate in all material respects;