



SHARIYAH
REVIEW BUREAU

Kazakhstan Ijara Company

SHARI'A AUDIT REPORT

1st January 2022 – 31st December 2022

SHARIA ADVISOR LICENSED BY
THE CENTRAL BANK OF BAHRAIN



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Part 1: Preface

1. Introduction

This report has been prepared after conducting Shari'a Audit ("Audit") for Kazakhstan Ijara Company ("Company"), covering the period from January 1, 2022, to December 31, 2022. In accordance with the agreed-upon scope of work, our responsibility as Shari'a Auditors for the Company includes carrying out Audit on the products, pertinent activities, systematic controls, and operations in place at Kazakhstan Ijara Company based on the Shari'a directives and guidelines issued by the Company's Shari'a Supervisory Committee ("SSC").

2. Standards and Guidelines

The audit was conducted in light of the Shari'a guidelines issued by the SSB while taking into consideration the Shari'a standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"). In the case where the SSB decision opposes the AAOIFI, the SSB opinion will prevail.

3. Responsibility

The Management of The Company is responsible for ensuring that the financial arrangements, contracts, and transactions having Shari'a implications, entered into with its customers, other financial institutions, and stakeholders and related policies, procedures, and systems are, in substance and their legal form, in compliance with the requirements of Shari'a rules and principles laid down by the SSC. The management of the Company 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 SSC requirements, laws, and regulations applicable to its activities;
- > Arranging training 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 Company's 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 within The Company from whom we determine it necessary to obtain evidence.

4. Procedures Performed

The procedures selected by us for the Shari'a Audit and the factual findings resulting therefrom with respect to each of the aspects covered in this report were depended on our judgment, based on risk assessments of the products and services with the Shari'a standards and guidelines, audit planning sampling and documentation. In making those Shari'a risk assessments, we considered and tested the internal Shari'a controls on a sample of transactions relevant to The Company's compliance with the laid down SSC rules and principles and designed procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Company's internal control on Shari'a rules and principles.

Because of the inherent limitations in any control environment, misstatements due to error or fraud may occur and not be detected. Our engagement cannot ensure that errors, fraud, or other illegal acts, if present, will be detected; in the case where we detect any fraud or red flags, we will escalate the issue to the audit committee. Our procedures have not been planned or conducted in contemplation of reliance by any third party or with respect to any specific transaction. Therefore, items of possible interest to a third party have not been specifically addressed, and matters may exist that would be assessed differently by a third party. Accordingly, our report should not be provided to a third party without our prior written consent. Such consent will be granted on the basis that such reports are not prepared for the use or benefit of anyone other than The Company.

5. Scope of Work

The Audit included reviewing the operations and activities of the Company, in addition to examining the products and related transactions to ensure that they are conducted in accordance with the guidelines and pertinent controls approved by the SSC. Exhibit 1 shows the products included in the Audit process and sampling coverage.

6. Sampling Methodology

Our sampling methodology is based on the likelihood and Shari'a risk involved in a particular product; where likelihood and Shari'a risk are high, the sampling will be increased accordingly.

Exhibit 1: Products and Samples					
Department	Product	Year	population	sample	Percentage
Operations	Ijarah muntahia Bittamleek	2022	117	50	43%
	Murabaha	2022	15	15	100%

Population	Likelihood	Shari'a Risk	Samples Percentage
1 to 100	High	High	100%
	High	Medium	75%
	Medium	High	50%
	Medium	Medium	25%
	Low	Low	10%
101 to 300	High	High	50%
	High	Medium	50%
	Medium	High	25%
	Medium	Medium	20%
	Low	Low	10%
301 to 1000	High	High	25%
	High	Medium	25%
	Medium	High	20%
	Medium	Medium	15%
	Low	Low	10%
1001 and above	High	High	10%
	High	Medium	10%
	Medium	High	5%
	Medium	Medium	1%
	Low	Low	0.10%

7. Objectives And Notes

The report's main objective 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 SSC. 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 on the Shari'a compliance environment of the Company

These observations aim to assess the internal Shari'a supervisory system of The Company and to improve the level of compliance in accord with the Shari'a standards and guidelines of the SSC and to ensure that policies and procedures were designed in line with SSC and other regulatory directives.

Observations on 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.

Observations on the executed transactions of the Products

These observations are a result of the Audit procedures carried out on the Shari'a compliant products. They exhibit shortcomings in implementing and executing such products in light of the directives approved by the SSC.

8. Ratings

The issues identified have been graded based on our assessment of possible risks on the Shari'a Compliant products of The Company. The ratings used in this Audit report are explained in the table below:

Observation Category	Risk Rating
High/serious impact on Shari'a compliance, the achievement of its objectives or serious implications on general/controls or adherence to internal Shari'a directives or applicable external Shari'a compliance requirements (such as AAOIFI, IFSB etc.).	High
Moderate impact on the overall position of Shari'a compliance or significant implications on general/ controls or adherence to internal Shari'a directives or applicable external Shari'a compliance requirements (such as AAOIFI, IFSB etc.).	Moderate
When an absence, weakness or deficiency in Shari'a controls exists, that has or could have a limited/low impact on the immediate or future performance of Shari'a compliance but still requires attention.	Low

9. Confidentiality

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

Part 2: Observations

Observations on the different departments of the Company:

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:

Finance Department

We have reviewed the Financial Statements for The Company for the period from 1st January 2022 to 31st December 2022 in accordance with agreed upon Shari'a Guidelines, and the below points were verified by the Shari'a Audit team.

> 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.

1.1 Presentation of penalties as income in the financial statement

Observation	Risk Rating: Moderate	
	Impact	Recommendation
During our assignment, it was observed that the company's financial statements reflected the late payment fees as income for the company.	Reflecting the late payment fees as income for the company is not consistent with the Shari'a controls and standards and the company enters the suspicion of benefiting from non-compliant revenue.	According to IFRS, you are able to directly credit the amount collected to an account labelled Charity Payable, this will be in line with the IFRS as well as Shariah requirements. Please explain to the statutory auditors the fact that from a Shari'a perspective, this amount cannot be booked as any form of income, rather, it will be correctly accounted under Liabilities, as future cash outflows are expected from this.
Reference		
> AAOIFI Financial Accounting Standard No. (28): Murabaha and Other Deferred Payment Sales: Charity (38)		
Root Cause		
External auditors recognizing penalties as income instead of liabilities.		
Management Response	Responsibility	Target Date
KIC will discuss this issue and the suggested recommendation with external auditors.		November 2023 (during preliminary audit procedures)

1.2 Non-Disposal of impermissible earnings

Observation	Risk Rating: Moderate	
	Impact	Recommendation
During our review process, it was observed that while a total of Tenge 14,458,599 was disposed to charity during the year, however, the balance in the Charity account was Tenge 79,583,459 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 79,583,459 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 SSC for review and approval.

Reference

- > AAOIFI Shari'a Standard NO. (6) Conversion of a Conventional Bank to an Islamic Bank (10/1)

Root Cause

Lack of control mechanism that obliges the management to dispose the charity amount at the required time.

Management Response	Responsibility	Target Date
<p>KIC has approved charity disposal by BOD and SRB plan, i.e.:</p> <ul style="list-style-type: none"> Approved in 2021 – Charity disposal for Tuition Grants (Zhakiya Fund)- KZT40,5 mln tenge to be utilized during 2021-2024, out of it KZT 28,4 mln already paid (KZT 16.5 mln paid in 2023) and KZT 12.1 mln reserved for 2023-4; Approved in 2022 – Charity disposal for people suffered from Earthquake in Turkey - KZT10mln (fully paid 2023); Approved in 2022 – Charity disposal for DARA FUND - 26 000 000 tenge in 2023 (fully paid in 2023); <p>The amount of KZT 13mln reserved in advance had been reversed back in 2023, and hence should be deducted from mentioned amount.</p> <p>So, out of KZT 79.5 mln – (KZT16.5 mln+KZT12.1mln (tuition grants)) - KZT10 mln.(earthquake) - KZT26 mln (DARA Fund) – KZT 13 mln (reversed reserves) – unutilized amount goes for KZT1.9 mln</p>		

> 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.

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 49% of total number of transactions to ensure that they are being carried out in accordance with the Shari'a guidelines approved by the SSC. During the assignment, we found no Shari'a observation.

Compliance Department

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

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...



13/6/2023

Appendix I

Assumptions

- > Our Shari'a Audit is based upon the assumption that:
- > 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 committee, and all documents submitted to us as originals are genuine and complete and all translations are accurate translations of the original text thereof;
- > All documents examined by us are and remain up-to-date and effective and have not been amended or supplemented;
- > Neither The Company nor its division is carrying out activities that breach guidelines issued by the relevant central authority or other competent authority in the country;
- > 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;
- > Any translated document that we have reviewed is an accurate translation of the original text thereof;
- > Each statement of fact made to us by or on behalf of The Company or any of its employees or otherwise contained in the audited documents remains true, complete, and accurate in all material respects;

Appendix II

References

- > **AAOIFI Financial Accounting Standard No. (28): Murabaha and Other Deferred Payment Sales: Charity:**
(38) Any charity payment against defaults and delayed payments by the costumer shall not be recognized as income of the seller and shall be taken directly to charity payable, when received.

- > **AAOIFI Shari’a Standard NO. (6) Conversion of a Conventional Bank to an Islamic Bank:**
10. Disposal of Impermissible Earnings
10/1.” All impermissible earnings acquired by the bank before conversion that need to be disposed of as per the rules in this standard must without delay be paid to charity”.