Internal Audit Report

For the Quarter ended March 31, 2022

A. SCOPE OF AUDIT

According to the approved audit plan, following processes & sub processes were reviewed during the quarter ended March 31, 2022:

S. No.	Process	Sub Processes	Time Allocated
1	Customer Services / Customer Touch Points	- Sales Lead Management; - Review of Customer Chat; - Review of INFO emails; & - Customer Call Recording and Complaint Management	11% 5% 3% 4%
2	Operations	- Transfer of units; - Transmission of units; - Account Opening and KYC Activities; - Pledge of Units - Zakat Calculation; - Monthly Income Transactions - Foreign Investments	1% 1% 16% 2% 2% 2% 1%
3	Human Resource Activities	- Recruitment & Selection; - Employee Transfers; - Employee Separation; - Employee Salary / Payroll Review; - Attendance Record and Leave Management; & - Employee Benefits	20%
4	Sales	- Churning of Front End Load (FEL)	2%
5	Information Technology	- Project Management – Sales App	7%

5	Financial Statement	- Comparison of Financial Statement Figures with GL
		    o Funds
		    o Management Company
		 - CDC & IPS Reconciliation;
		 - Income Verification; and
		 - Expense Verification.
			16%

6	Finance	- Review of Bank Mark-up	7%

B. ACTIONABLE ITEMS FROM PREVIOUS QUARTERS

Following are the outstanding issues pertaining to previous Audit Committee Meetings:

Total Outstanding Issues	Needs to be Closed	Pending
07	02	05

Pending Action Items

1	KYC Documentation (Assessment of Customers)	First Reported:	Mar-21
		Deadline:	Jun-22

The audit committee instructed the management to perform an assessment of the customers especially on the retail side to identify high risk customers as regards to money laundering and are not providing complete information.

Current Comments	Internal Audit Comments
Head of sales reviewed 69 high risk customers from the provided customers list. 19 cases are completely resolved, few cases are partially resolved and rest will be resolved by next quarter end.	In the last quarter 13 cases were resolved by the management and in the current quarter a further of 6 cases were resolved. IAD is monitoring the compliance and will report to the audit committee if deadlines are not met.

2	Lack of formal IT strategy	First Reported:	Sep-21
		Deadline:	Jun-22

Company doesn't have a formally approved IT strategy document to govern the overall direction of the IT activities. The members deliberated on the issue of lack of IT strategy and discussed the need for a separate IT strategy rather than covering it in the business strategy.

Current Comments	Internal Audit Comments
IT strategy will be put up for approval from the Board with the annual budget for FY 2022-2023 in the year end meeting of June 2022.	No document has been shared with us by the management on this. IAD will close this action item once it is put up for approval.

3	Compensation Structure of Customer Enrichment and Investment Deepening agents	First Reported:	Dec-21
		Deadline:	Apr-22

The management to ensure compliance of all the applicable laws so that there is no legal exposure in our employment contracts.	
Current Comments	**Internal Audit Comments**
We are in process of devising a more suitable compensation structure for the Customer Enrichment Work from Home Team. After formalizing the contract and ensuring there is no legal exposure in the contract, we will then roll it out formally. It should be rolled out at the end of this month (April).	IAD will review the structure once finalized.

4	**Review of Research Department**	**First Reported:**	**Dec-21**
		Deadline:	**Jun-22**

The internal audit department to carry out annual checks to ensure that the valuation models prepared by the research department are being updated from time to time, normally once a quarter. Further, the basic underlying assumptions going into the valuation models are reviewed by the analysts at least one a year. Copies of the valuation models after the annual review should be saved and compared with the actual situation that evolves a year down the road. Thus there will be the copy of a model that is frozen and saved, and there will be the live model that is being updated from time to time. These two versions will be compared by the CIO to assess the quality of research and analysis.	
Current Comments	**Internal Audit Comments**
IAD will review the research function based on the guidelines provided by the BAC members in the June quarter to assess the whole year.	N/A

5	**Delayed response to ISAVE application**	**First Reported:**	**Dec-21**
		Deadline:	**Apr-22**

With respect to delayed responses to ISave application reviews submitted by users on android and IOS platforms, the committee members directed the management to revise tolerance level from 3%-4% to 0%.	
Current Comments	**Internal Audit Comments**
Implementation deadline – April 2022.	IAD will continue to monitor the response timings and will report to BAC if it exceeds the new threshold.

Closed Action Item

1	Social Network Access	First Reported:	Dec-21
		Deadline:	N/A

The management to document the approval along with the duration of the access and ensure that such access is timely revoked.	
Current Comments	**Internal Audit Comments**
Noted for compliance.	IAD has not observed any non-compliance in this quarter.

2	User ID of Resigned Staff – Not Revoked Yet	First Reported:	Dec-21
		Deadline:	N/A

The committee members reiterated that the management should ensure that resigned staff's IDs should be timely revoked in the system.	
Current Comments	**Internal Audit Comments**
The responsibility of marking resign in system has been handed over to HR Department for the smooth process.	IAD did not observe any active user id of resigned staff in the system.

The Audit committee instructed the internal audit department to ensure that all the action items arising from the minutes of the board meeting have been duly incorporated in the list of action items circulated to the board for the next meeting. The management has provided us the list of actionable items and warranted us that the same will be circulated to the board.

C. Executive Summary of Issues Identified During the Quarter

Reported to Audit Committee	4
Reported to Management	23
Total Observation	27

S. No.	Executive Summary	Page #
1	***Ineffective Management of Sales Lead*** (i) Numerous leads have been identified which were marked as dead / not interested by the call centre staff. However, after listening to the conversation, IAD noted that these customers can be better served if handled by sales agent. (ii) The sales staff have discontinued using CRM application for lead management due to implementation of sales app. Sales lead management which includes lead assignment, tracking, updating leads on the work performed on potential customers has not been available in the sales app so far. (iii) Majority of the opened leads in the sales app assigned to "Customer Service Coaches" (CSC) and "Investment Deepening" (ID) team are not shifted from the Sales App to CRM. As a result, those customers will not be contacted for further investment by the CSC and ID teams.	10
2	***Review of Human Resource Policy and Payroll*** (i) The management has only included petrol and car maintenance reimbursement along with the tax as part of the salary. Other benefits such as car registration, wheel replacement, mobile and mobile bills reimbursement are yet to be included in the salary calculation. (ii) Commission policies are not approved by the Board and Board Human Resource and Remuneration Committee (iii) Certain benefits like Conveyance allowance for selected females and CCU female staff, shift allowance for call centre staff and incentives/rewards to call centre staff are not covered under HR Policy (iv) Policy regarding mobile phone benefits is not consistent among staff and overtime payment is not made according to the policy.	16
3	***Significant Mark-up Amount Not Received*** Significant mark-up amount i.e. **Rs. 89.9 million** has outstanding from last 4 months with different banks.	21
4	***Front end load charged to pension funds are not disclosed*** Unlike CIS, the pension fund load charged to unit holders are not disclosed in account opening form and on the website where load charged to all the funds are mentioned.	23

S. No.	Executive Summary	Page #
5	**Miscellaneous Forms Kept by the Sales Staff – Karachi Head Office** Signed Risk Disclosure Statement for Investor, signed blank Conversion Form, signed blank Redemption Form, KYC form of UBL funds and Redemption form of HBL Asset Management were kept by the sales staff at the time of IA visit.	24
6	**No Back-up Staff Available at Rahim Yar Khan Branch** On Feb 25, 2022; Rahim Yar Khan branch was not opened (entire day) due to branch staff is on leave. Only one staff is deputed on the said branch.	24
7	**Delay in Processing Customer Account Opening & Investment Transactions** Delays were identified in customer account opening process and processing of investment transaction.	24
8	**Obsolete Information on MCBAH Website** Multiple information pertaining to branches were not updated on website i.e. incorrect address of Faisalabad Branch, incorrect contact details of Hyderabad Branch, incorrect contact details of Quetta Branch etc.	24
9	**Regulatory Non-Compliances at Rawalpindi Branch** As per SECP Circular # 02 of 2016; Digital display of business license, NTN certificate, all 3 Standee contents were not available at Rawalpindi Branch since 12 days.	25
10	**Review of Alhamra Website** Fund auditor name and date of AM1 rating by PACRA was not updated in Alhamra Daily Dividend Fund, Alhamra Islamic Stock Fund, Alhamra Money Market Fund, Alhamra Islamic Pension Fund and Alhamra Smart Portfolio Plan.	25
11	**Review of Chat Services** 05 instances of inappropriate responses and 04 instances of delay responses were identified during fresh chat.	25
12	**Manual calculation of commission payments to sales staff** The calculations of management fee are performed manually on excel files instead of the system. Due to human interventions, there can be chances of error in the pay-out given to employees.	26
13	**Updated HR Policy Not Available** Updated Human Resource (HR) Policy is not available with the HR department. Previously, HR policy was accessible to every employee via Decibel portal.	26

S. No.	Executive Summary	Page #
14	***Job Description Document – Not Available in HR Employee File*** Job Description document against the 05 employees was not available in employee files.	26
15	***Delay in Final Settlement - For Resigned Staff*** 09 instances were identified where final settlement was cleared with a delay ranging from **34 days to 84 days**.	26
16	***Gate Access of Resigned Staff – Not Revoked*** 07 instances were identified where user IDs of resigned staff on attendance machine were not revoked resultantly resigned staff have access to office premises.	26
17	***Previous Employment Verification*** At the time of conducting audit, IAD noted an instance where previous employment experience is not verified by the HR department.	26
18	***Interview Evaluation Form – Not Found / Unsigned*** 02 instances were identified where Interview Evaluation forms are not found in employee files. Further, 05 instances were noted where Interview Evaluation forms are not signed by the interviewer.	26
19	***Academic and Professional Documents were not Filed*** 02 instances were identified where academic and professional documents mentioned in the resume of the newly recruited interns were not filed in HR File	26
20	***Employee Exit Formalities – Not Properly Fulfilled*** Identified 05 instances where employee exit formalities like acceptance of resignation, exit interview form etc. are not properly filed in HR files.	27
21	***Higher Bank Profit Rates – Not Availed – Opportunity Loss to Funds*** The funds under management were not placed by the FMD in the banks providing higher returns than others banks, resulting in opportunity loss to the funds. "National Bank of Pakistan" was offered 9.50% having no upper cap limit for the period from December 01, 2021 to December 14, 2021. However, the FMD had deposited additional cash of PKR 3.1 billion in "Faysal Bank Lahore Branch" offering lower profit rates (i.e. 9.30%).	27
22	***Facility Letter Received with Delay***	27

S. No.	Executive Summary	Page #
	Facility letter of DIB – KSE Branch received with a delay of **06 days** in the month of September 2021.	
23	*Delay in Recording of Profit Received in GL* Profit received from the banks were not timely recorded in the books and was considerably delayed ranging from **12 days to 27 days**.	27
24	*Requirement of Project management policy not implemented completely.* During the audit of project management activities surrounding the sales app, IAD observed that some of project management policy requirements for documentation have not been completed. The management should assess and evaluate the project management policy and ensure that requirements mentioned in the policy should commensurate with the nature and size of the organization.	27
25	*Delay in Lead Assignment and Contact Establishment* 03 instances identified where delay in assignment by the sales staff ranges from **40 days to 42 days**. 05 instances were identified where delay contact was established with customer ranging from **03 days to 34 days**.	28
26	*Fresh Chat - All functions are not handled by the Business Owner* In case of any issues faced by the Call centre staff in fresh chat application, they escalate it to the marketing department who forwards the issue to the technical support team despite the fact that Fresh chat have online free technical support is available from the vendor 24/7 and the users can easily communicate their issues to the vendor via chat message option.	28
27	*Weak SOP in dealing with delayed responses because of technical faults* Currently, ISD / CC staff does not have any mechanism or tool to identify the actual cause of delay in chat service except to forward the delayed instances to marketing department which was forwarded the same to fresh chat support staff.	28

D. Issues Reported to Audit Committee

1.   Ineffective Handling of Sales Lead

Issue 1 (call center staff handling sale leads initially)

The process of assigning leads was changed during the start of the FY 22. All the sales lead generated through marketing / social media campaign are now initially contacted by the Call Centre staff (who are not sales advisor) to establish the fact that whether the person is concerned with obtaining information only or wanted to get connected with a sales advisor for actual investment. Once the customer shows interest in investment, then the lead is forwarded to Sales coordinator for further action otherwise the lead is marked as "Dead / Dead – Not Interested" by the Call center staff.

During the audit, IAD evaluated sales lead which are marked as "Dead / Not Interested" by the Call centre staff and observed that some of these conversation looked very promising and could lead to potential sales or account opening if handled by an experienced sales advisor. Nonetheless, these leads would certainly not qualify for "Dead / Not interested" status and could be pursued later. Further, in some cases the agent did not provide accurate information to the person as well. Summaries, from some of the calls are as follows,

Lead Number	Department	Status	Created On	Owner	IAD Comments
20220403922	Marketing	Dead	11/03/2022	Jazib faheem	- The customer held a very detailed call of around 12 minutes in obtaining information regarding MCBAH and funds and agent provides the required information; - Customer appears to be promising and asked about branch address and where she can visit to obtain further information which was provided by the agent; - In the end the lead was marked as Dead Not Interested after such promising discussion. **Management Comments:** Towards the end of the conversation, the customer mentioned that she will visit branch for further details and did not provide consent for being contacted by an advisor. Hence, the lead was marked dead since CC Team are instructed to only forward leads to Sales Team after taking consent from the customer.
20220403837	Customer Care Unit	Dead - Not Interested	01/03/2022	Jazib faheem	- The customer sounded like an institution as he informed that the investment has to be approved by the executive committee. The agent briefed him on the rates and fund products; - The lead was subsequently marked as dead not interested. **Management Comments:**

Lead Number	Department	Status	Created On	Owner	IAD Comments
					The customer wanted to review our FMR and then decide, the same was shared by the agent on provided email ID. The lead was marked dead as per SOP as CC Team are instructed to only forward potential leads to Sales Team after taking consent from the customer.
20220403532	Marketing	Dead - Not Interested	17/01/2022	Jazib faheem	- Customer wanted to know information regarding funds; - Agent informed that "low risk funds invest in secured equities such as Bank bonds i.e. investment in Banks, Medium risk funds invest like automobile sector and high risk funds invest in stocks; - Agent then explained investment and redemption processes and returns of the funds; - The customer informed that some of the information was understood by him while some was not. For that he asked for any learning material for beginners is available to which the agent referred to FMR at the website; - The customer said how to contact MCBAH after which the sales agent provided the contact number; - The lead was subsequently marked as Dead-Not Interested. **Management Comments:** Relevant Training has been arranged for CC's lead processing team to better handle queries related to fund risk profile. Further, the lead was marked dead as per SOP as CC Team are instructed to only forward potential leads to Sales Team after taking consent from the customer.
20220403912	Marketing	Dead - Not Interested	10/03/2022	Jazib faheem	- The customer wanted to obtain information regarding pension fund. Agent informed him that he will share FMR. Agent than briefed the customer regarding the funds; - Initially the customer asked to give his number to the investment advisor and to contact him again after 3 days. - Instead of forwarding his number the agent asked if he wants he can contact us again and then he will forward the number to the investor advisor. The customer agreed to it in the end. **Management Comments:** During call the agent clearly offered customer that our Team of Advisors can visit him and he can forward his details to Sales Advisor but the customer wanted to read the FMR first and then decide. Yes the customer did mentioned that someone may contact him after 3 days but when the agent informed him that our official contact details including WhatsApp number will be mentioned in the email containing FMR and if he is interested, he can always connect with us through any of these touch points, the customer was convinced and agreed on same.
20220403662	Customer Care Unit	Dead - Not Interested	04/02/2022	Jazib faheem	- The customer did not have a bank account. Agent asked the customer to first open the bank account; - After 4 days' customer was again contacted. He said he has requested the bank to open his account. The agent asked him to contact us again once the account is opened. This interaction happened on 8th Feb and lead was marked as dead - Not interested. **Management Comments:** The lead was marked as "Dead – Not Interested" after first contact on 4th Feb

Lead Number	Department	Status	Created On	Owner	IAD Comments
					On 8th Feb, the customer submitted a "Request a Call" request against which an auto call was initiated by our system and CC Agent got engaged with the customer.
20220403872	Customer Care Unit	Dead - Not Interested	06/03/2022	Jazib faheem	- The customer wanted to know detail about how to invest; - The agent asked whether he has an account or not to which replied negatively; - The agent asked whether his details should be shared with the investment advisor to which he replied positively; - CC Agent called the customer later but the customer was busy and asked to call later. Why Call centre agent called and not an actual investment advisor. - No calls were made subsequently and the lead was marked as "Dead- Not Interested". **Management Comments:** The first call was made at 12:32pm against an email sent by customer on info@mcbah.com. Reference of the same was made by the agent during his initial call greeting. The second call was made at 17:36 by CC agent to give initial briefing regarding our funds but the customer was busy and asked to call later. IAD's observation regarding lead marked as dead without making any calls is **incorrect**. CC Agent made 3 attempts each on 7th & 8th March but all were not attended by the customer as mentioned in lead notes. Only then the lead was marked as dead as per SOP with proper remarks.
20220403700	Marketing	Dead - Not Interested	10/02/2022	Jazib faheem	- The customer wanted to obtain information only; - He further said that he will contact later for more information; - The lead was marked as "Dead Not Interested". **Management Comments:** The lead was marked dead as per SOP as CC Team are instructed to only forward potential leads to Sales Team after taking consent from the customer.
20220403656	Customer Care Unit	Dead - Not Interested	04/02/2022	Jazib faheem	- The customer wanted to open account online but online account opening was suspended; - The agent explained the option of opening paper based account and linking it with Isave however, the customer was hesitant; - The agent then asked the customer to open the account once the app is live; - The lead was marked as dead. **Management Comments:** The lead was marked dead as per SOP as CC Team are instructed to only forward potential leads to Sales Team after taking consent from the customer.

Lead Number	Department	Status	Created On	Owner	IAD Comments
20220403459	Marketing	Dead - Not Interested	06/01/2022	Jazib faheem	- Customer wanted to know information regarding the funds; - Agent provides knowledge of the funds and also responded to customer questions; - In the end the agent asked whether to forward the contact details to the sales advisor. However, the customer informed that right now i have only gathered information and will invest later; - The lead was subsequently marked as Dead-Not Interested. **Management Comments:** The lead was marked dead as per SOP as CC Team are instructed to only forward potential leads to Sales Team after taking consent from the customer.
20220403843	Customer Care Unit	Dead - Not Interested	01/03/2022	Jazib faheem	- Customer tried to open account on Isave but online account opening was closed; - Agent guided the customer on physical account opening however customer said I cannot fill the forms by myself and need assistance; - Agent recuses and informed the customer to check within a week whether the app is operational or not; - Customer informed that he is calling from Jamnagar and went to the MCB branch as well for information regarding Isave but they were not aware; - The lead was marked as "Dead-Not Interested". - Efforts could have been to coordinate with MCB branch to help the customer in filling the form. **Management Comments:** Customer very clearly and specifically mentioned that he is not interested in paper work and only wants to open digital account. Involving MCB Bank would also not be feasible as they do not entertain digital account opening. The lead was marked dead as per SOP as CC Team are instructed to only forward potential leads to Sales Team after taking consent from the customer.

Further, in the case of Mr. Waris Muhammad Hussain having lead number 20220403871, call center agent Jazib Faheem provided in accurate information regarding account opening. The agent asked about the occupation and the source of income to which the customer replied that I am not working or don't have any income source. The agent replied that in this case account cannot be opened. Had this conversation been made by a sales person, he would have guided the customer that we have an unemployed category in the occupation section of KYC form and the source of income could be your savings depending on the amount of investment.

Recommendation

- Ideally sales leads should be contacted by a sales agent so that they can answer queries of the customer effectively and also help the customer in making up their mind for investment. OR

- If the management wants to continue using the same process, some filtering mechanism should be adopted so that promising leads are not closed instantly just because customer was hesitant for transfer of contact to the sales agent and are contacted again at later date.

Management Comments

As per Management's decision initial contact on fresh leads are being made by dedicated CC Staff who provide initial briefing about products and only forward genuine/valid leads towards Sales Team and after taking consent from the customer.

Through this SOP the Management has been successful in achieving a very efficient TAT on first contact on leads and quantum of unattended leads in the ownership of Sales Team have also declined considerably. Hence, looking at all the positive impacts we would continue with the currently adopted practice/SOP.

Issue 2 (Ineffective management of sales leads)

Previously CRM application was used by the sales team for lead management. New sales leads are created in the CRM either automatically or by the call center staff and are assigned to different sales agent by the sales coordinator. Every lead is recorded in the system and work performed on the leads can be tracked in CRM application i.e. whether meeting is done or not, what sales pitch were made, timely follow ups were made by the sales staff or not etc. Further, sales agent also had the option of creating new leads in the system if they came across any potential customers.

With the introduction of sales app, some of the sales team tasks have been shifted to the app. This include processing of forms, which was previously done manually. Further, customer data such as account statements are also made available in the app for easy access. Sales lead management which includes lead assignment, tracking, updating leads on the work performed on potential customers has not been available in the sales app so far.

During the audit it was observed that the sales staff have discontinued using CRM application for lead management. The sales coordinator has stopped assigning leads to the sales staff on CRM and instead send leads to the relevant agent via email due to which it is very difficult to track what work has been performed on these leads. Further, when the IAD reviewed the excel sheets used by the sales staff, it was observed that not all the sales leads are entered by the agents. Status of only promising leads are updated which makes it very difficult to ensure whether all the leads have been contacted in the first place.

Recommendation

- Management should enable the functionality to create new sales lead in Sales App as early as possible; &
- Sales coordinator should timely assign the leads to the respective sale agents in CRM. Further, CRM should be used like before for management of sales lead till the leads module become live in sales app.

Management Comments

Co-ordinator was sharing the leads on the emails with relationship managers and relationship manager were working on these leads. Since we were moving on the sales app the new coordinator was unaware of CRM usage back then but now the leads are being managed through CRM.

Issue 3 (Open sale leads in the sales app of marketing department)

There are three teams currently working under Marketing department namely Customer Enrichment (CE), Customer Service Coaches (CSC) and Investment Deepening (ID). All the teams started using sales app in the last quarter however, the CSC team and ID team shifted to CRM recently due to Technical issues in Sales App. During the review of Sales lead, IAD noted that majority of the opened leads in the sales app assigned to CSC and ID team are not shifted from the Sales App to CRM. As a result, those customers will not be contacted for further investment by the CSC and ID teams. Details of the same are as under.

Department	Opened Leads as per Sales App	Opened Leads as per CRM	Difference
Customer Enrichment (CSC and CE)	1,094	242	852
Investment Deepening	381	13	368

Recommendation

- All open leads tagged to CE / ID staff in sales app should be shifted to CRM in order to ensure the completeness.

Management Comments

We have given our entire requirement for Sales App to IT Dept. and awaiting deployment specifically for CSC and ID teams. All of the issues related to lead creation/assignment is already a functionality of Sales App. As soon as IT department hands it over to our teams, there will be no manual working. Since we don't have the Sales App therefore we are working with CRM by assigning manually some special tasks to our teams in form of new leads. These tasks are designed with a certain goal to be achieved in a certain amount of time. So these leads wont necessary be closed until the goal is achieved or time period is up (whichever comes first).
We will continue using CRM for lead assignment and managing until our teams receives the Sales App. Further, all open leads from Sales App have been shifted to CRM now.

2. Review of Human Resource Policy and Payroll

Issue 1 (All non-taxable allowances are not included in salary)

The company offers certain benefits to the employees which includes petrol reimbursement, car reimbursement, car registration, wheel replacement, mobile and mobile bill reimbursement etc. The Board in its meeting held on 09 August 2021 passed the following resolution regarding these benefits;

"RESOLVED THAT
Non-taxable allowances including petrol reimbursement, car reimbursement, car registration, mobile and mobile bill reimbursement be made part of the taxable Salary;

"FURTHER RESOLVED THAT
Any additional tax on the employee would be borne by the Company.

However, it was observed that the management has only included petrol and car maintenance reimbursement along with the tax on these items as part of the salary. Other benefits such as car registration, wheel replacement, mobile and mobile bills reimbursement are yet to be included in the salary calculation.

Recommendation

- It is recommended that all the benefits as per the resolution are to be included in the salary and must be updated in the HR policy as well.

Management Comments

It has decided to implement the said resolution gradually in order to avoid errors. The working for Car Related Allowances including Car Maintenance, Fuel Allowance, Car Registration and Wheel Replacement have been finalized. HR department has started working on mobile bills reimbursement and same will be processed by the end of April 2022.
The said benefits and allowances will be presented to board for approval and will be updated in HR Policy Manual accordingly.

Issue 2 (Commission policy is not approved by the Board and Board Human Resource and Remuneration Committee)

As per the roles assigned to the Board Human Resource and Remuneration Committee (BHRRC);

The Committee undertakes functions delegated by the Board including;

- *Human Resource policies including benefits and perquisites.*

The Company has recently changed its commission policy for the sales staff. During the audit it was observed that commission policy for corporate and retail staff are not approved by the Board. Commission represents remuneration to sales staff and are awarded in place of bonuses since all bonuses and remuneration policies to staff is approved by the Board and BHRRC hence, the commission policy should also be approved by the BHRRC and Board.

Recommendation

- It is recommended that the commission policy is approved by the BHRRC and Board.

Management Comments

The commission for the retail teams is a day to day function and is being used to manage the teams. At times this need frequent changes to be in line with market practices. We feel that due to probable frequent changes the approval for the same should rest with the management.

Issue 3 (Certain benefits not covered under human resource policy)

There are certain benefits provided to staff which are not covered under human resource policy.

- *Conveyance allowance for selected females and CCU female staff*
  The management approved monthly conveyance allowance for CCU female staff of PKR 5,000 with certain conditions on 13 July 2021. Further, female transport allowance is also provided to certain female staff since March 2016. However, no amendment has been made in the HR policy to incorporate the same.

- *Shift allowances for call center staff.*
  The management approved a comprehensive policy on shift allowances for call center staff on 19 Oct 2020 under which the call center staff was entitled to different shift allowances based on the shifts they worked in. However, no amendment was made in the HR policy manual for the same.

- *Call center performance matrix.*
  The management revised call center performance matrix with effect from 1st December 2021 under which call center agent were entitled to monetary incentives/ rewards for the targets they achieved. However, no provision is available under the HR policy for this.

Recommendation

- It is recommended that all the above benefits should be made part of the HR policy to ensure consistency and changes to the policy must be ratified by board.

Management Comments

The above-mentioned benefits will be presented in upcoming HR Committee meeting for approval and will be made part of the HR policy once approved by board.

Issue 4 (Differences in implementation of HR policy)

During the audit, IAD observed differences in implementation of HR policy in the following areas;

- *Mobile Allowance for retail department*
  As per paragraph 7.1 of the policy, retail department staff is getting different allowance than what is approved in the policy.

Designation	Phone Allowance as per policy	SIM as per policy	Bill Limit as per policy	Actual Fixed Allowance
Wealth Officer	1,000	N/A	N/A	1,000
Wealth Manager	1,000	N/A	N/A	1,000
Group Sales Manager	1,200	N/A	N/A	1,000
Senior Area Manager	1,500	Co. provided	2,000	3,800
Area Manager	1,500	Co. provided	2,000	3,800
Regional Sales Manager	1,750	Co. provided	2,500	4,500
Regional Head	2,000	Co. provided	2,500	5,500
National Sales Manager	3,000	Co. provided	3,000	5,500

It is pertinent to mention that staff has been provided with a fixed phone allowance and bill limits. Whereas in actual staff is getting paid fixed allowances. Further there is a slight difference even if phone allowance and bill limits are added in case of the red highlighted above.

Although there is no specific policy for mobile bill and headset reimbursement/ allowance to corporate sales staff, but, as per the policy the CEO can provide such benefits to any of the staff. During the audit IAD observed different practices for different staff.

Fixed mobile allowances	Some sales staff such as Head of sales Islamic division, Deputy Head of HNW sales are getting fixed monthly allowance
Mobile bills reimbursement	Some sales staff are getting mobile bills reimbursed with in the specified limit
Company Provided Sim	Some sales staff are provided with company provided SIM.

Further, IAD was not provided with the limit approvals of the above staff. Furthermore, mobile bills reimbursement allowed to staff are sometimes not routed through HR and processed by finance which creates doubts as to the checking of the same against the specified limits.

- *Overtime payment policy for non-officer grade staff*

  As per the available HR policy, employees who are non-officer grade are entitled to overtime allowance. The gross salary payable to such employee in respect of such overtime work will be calculated at double the ordinary rate of his/her gross salary payable. However, in practice, payment is made for the overtime hours simply at a rate of PKR 100.

Recommendation

- It is recommended that policy regarding mobile phone benefits should be streamlined to ensure consistency across payments. Further, for overtime, either the HR policy is amended or the practice as per the policy.

Management Comments

HR department is in process of streamlining the process of mobile and mobile bill Allowance according to the resolution passed in August 2021 and same will be presented in HR committee for approval.

Further, the revised overtime policy has already been presented in Board meeting but it is yet to be approved till then the current practice of overtime that is of Rs. 100/- rate per overtime hour is following by Admin and HR departments.

3. Significant Mark-up Amount Not Received

Issue

IAD has observed that a significant mark-up amount i.e. Rs. 89.9 million accrued over bank deposits placed with different banks from last 4 months is not received. Fund Management Department (FMD) and Fund Accounting Department (FAD) are following up with the Bank but they are not yet successful. The delay in receipt of mark-up income causes opportunity loss to the respective funds. Following are the details of those mark-up accruals:

Fund Code	Bank Name	Profit Month	Profit Accrued Rs.	Profit Received Rs.	Outstanding Profit Rs.
CMOP	HBL-KSE	Dec-21	125,951,021	73,964,589	**51,986,432**
PCF	HBL-KSE	Dec-21	50,053,329	29,231,027	**20,822,302**

Fund Code	Bank Name	Profit Month	Profit Accrued Rs.	Profit Received Rs.	Outstanding Profit Rs.
CMOP	HBL-KSE	Jan-22	20,098,906	13,747,565	**6,351,341**
ALHIMMF	ABL Saddar	Dec-21	75,902,157	70,483,259	**5,418,898**
PCF	HBL-KSE	Jan-22	9,211,922	6,123,677	**3,088,245**
DCFIF	ABL Forex	Jan-22	1,460,136	-	**1,460,136**
DCFIF	ABL Forex	Dec-21	486,712	-	**486,712**
ALHDDF	FABL Lahore	Nov-21	1,000,041	832,935	**167,107**
ALHIIF	BIPL Bukhari	Jan-22	17,142,279	17,054,807	**87,472**
ALHISF	FABL Lahore	Dec-21 & Jan-22	120,253	63,382	**56,871**
AALHAA	DIB – KSE	Nov-21	302,131	281,817	**20,314**
Total			**301,728,887**	**211,783,058**	**89,945,830**

A more detailed analysis of one HBL bank account in CMOP fund is presented below to highlight the delay in getting the mark-up.

2022	Qtr 1	Qtr 2	Qtr 3
Opening	78,500,711	44,969,396	125,951,021
Accrual	68,846,243	262,166,728	208,432,726
Received	(102,377,558)	(181,185,102)	(214,998,571)
Closing	**44,969,396**	**125,951,021**	**119,385,176**
Average Closing	**96,768,531**		

2021	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Opening	120,015,294	33,190,363	125,951,021	18,236,135
Accrual	58,262,022	186,243,818	208,432,726	88,069,340
Received	(145,086,953)	(128,468,063)	(214,998,571)	(27,804,763)
Closing	**33,190,363**	**90,966,118**	**119,385,176**	**78,500,711**
Average Closing	**55,223,332**			

If we look at both the average closing balance for the year, it can be easily concluded that at least PK 55 million is pending throughout both the year.

Recommendation

- FMD should enhance their efforts to get the mark up accrued from highlighted banks.

Management Comments

Fund Management is in strong follow up with Banks for Mark-up receivable, banks have agreed to disburse the same at the earliest. Most Banks take time in calculations and actual relay of profit and we maintain continuous follow-ups.

4. Front end load charged to pension funds are not disclosed

SECP Directive # 04 of 2015 Point (a) states that:

"Clearly disclose the maximum rate of front-end load fee (sale charge) that is being charged to a participant at the time of contribution."

During the review of Front End Load charged on pension funds, IAD noted that likewise CIS funds, load details on pension scheme (both Conventional and Alhamra) is neither disclosed on account opening form nor on website which IAD believes that the non-compliance of above mentioned clause of SECP circular.

Recommendations

- FEL rates charged on pension funds should be disclosed on both website and account opening form in order to comply with the SECP directives.

Management Comments

The FEL on Pension Funds is being disclosed under the respective FMRs available on both our websites. Also, at the time of contribution, through Point No.4 & 5 of the Declaration section the participant has been made aware of the FEL.

Further Audit Comments

IAD raised the above query on 28 March 2022 and on the same day the load percentage on the website was corrected later on. IAD received the above management reply on 8th April 2022. Since, the website percentages have been corrected, it is further recommended that the percentages are also reflected in account opening forms.

E. Issues Reported to Management

Following is a list of observations which were presented to the management for corrective action at its end. Further, the details of same will be presented in IAD report of June-22 quarter as per the Audit Committee instruction.

1	***Miscellaneous Forms Kept by the Sales Staff – Karachi Head Office*** Signed Risk Disclosure Statement for Investor, signed blank Conversion Form, signed blank Redemption Form, KYC form of UBL funds and Redemption form of HBL Asset Management were kept by the sales staff at the time of IA visit.	RM fills account opening forms for the customer to facilitate them and give them high quality services as sometimes client feels annoyed by looking at too many pages of account opening form and sometimes customer also request relationship managers to bring other AMC forms for redemption.
2	***No Back-up Staff Available at Rahim Yar Khan Branch*** On Feb 25, 2022; Rahim Yar Khan branch was not opened (entire day) due to branch staff is on leave. Only one staff is deputed on the said branch.	Management has noted this and will hire new back up resource.
3	***Delay in Processing Customer Account Opening & Investment Transactions*** Delays were identified in customer account opening process and processing of investment transaction.	Please note UHA follows below process for account opening and investment booking with a maximum a TAT of 2 days, however UHA does prioritize the account opening requests and investment booking of such cases where Customer(s) has selected Realization Fund; this will ensure zero financial loss to Customer. Moreover, Distributors & ADC members should ensure that clean and properly reviewed case should be forward for processing to avoid delay in account opening process.
4	***Obsolete Information on MCBAH Website*** Multiple information pertaining to branches were not updated on website i.e. incorrect address of Faisalabad Branch, incorrect contact details of Hyderabad Branch, incorrect contact details of Quetta Branch etc.	There are different types of pages on a website which are either promotional or info pages. Info pages have specific owners and we keep them updated all the time. Whereas promotional pages are only there for promotion and focused for a particular campaign. The official page for branch info page is always updated and accessible via menu navigation on the website in "contact us". Whereas this specific page https://www.mcbah.com/new-branch/ was launched only for the opening of the new branch in Gulshan, Karachi. And this page was only accessible via the banner present on the site. We took down the banner so nobody could get access to it but now we can see that it is appearing in google searches due to certain keywords. Therefore we will take this page down and keep the same practice for promo pages for future as well.

5	**_Regulatory Non-Compliances at Rawalpindi Branch_** As per SECP Circular # 02 of 2016; Digital display of business license, NTN certificate, all 3 Standee contents were not available at Rawalpindi Branch since 12 days.	USB was attached once received from head office but after few days an issue occurred in USB due to virus then it was plugged out to reset but the virus came again now the team has worked on it and all corrupted data has been removed from it and all required certificates has been reinstalled on it.
6	**_Review of Alhamra Website_** Fund auditor name and date of AM1 rating by PACRA was not updated in Alhamra Daily Dividend Fund, Alhamra Islamic Stock Fund, Alhamra Money Market Fund, Alhamra Islamic Pension Fund and Alhamra Smart Portfolio Plan.	We are very close to the launch of new website, where updated information shall be available.
7	**_Review of Chat Services_** 05 instances of inappropriate responses and 04 instances of delay responses were identified during fresh chat.	**Inappropriate Responses** 1) Our findings on this case are as follows: 1- There was no error in the tax rebate certificate it was only an understanding issue 2- We conducted sessions with entire CC Staff & majority of the staff could not provide a satisfactory explanation 3- Also it was revealed that such a query was never received from any other investor 4- This inquiry was made by our Head of IAD and not any other normal investor 5- Clarity which was required has now been passed on to the entire CC Staff Although we want our CC Staff to be well equipped to respond to any query raised by our valued investors but would request IAD to extract cases out of genuine customer interactions. As CC Staff get overwhelmed while interacting with a Senior Staff of IAD and make errors unknowingly 2) Agreed with the observation. However, it is very old chat, we now have separate IDs for every agent with queue system. Hence, this issue does not occur anymore. 3) It was a case of incomplete information rather than miss-information. Also later in the conversation at 02:47AM the agent clearly communicated returns calculations on per day basis which were correct. 4) Noted. New agent training session arranged 5) Noted **Delayed Response** 1) For 1, 2 and 4, Noted for future compliance 2) For 3, Delay due to Technical issue, this was also mentioned in chat by the agent & can also be read by IAD We would also like to mention here that we are continuously making efforts to improve our quality of services through constant monitoring being done by TLs + QA.

8	*Manual calculation of commission payments to sales staff* The calculations of management fee are performed manually on excel files instead of the system. Due to human interventions, there can be chances of error in the pay-out given to employees.	We have raised a request with IT for system development of new commission structure for RST through which all calculations and checks will be performed by system itself.
9	*Updated HR Policy Not Available* Updated Human Resource (HR) Policy is not available with the HR department. Previously, HR policy was accessible to every employee via Decibel portal.	HR Policy Manual is in process of revamping as suggested by Board. The policy will be shared with employees and uploaded on decibel portal once it gets finalized and approved by Board of Directors.
10	*Job Description Document – Not Available in HR Employee File* Job Description document against the 05 employees was not available in employee files.	JD are in process, will be filed once finalized by HoD.
11	*Delay in Final Settlement - For Resigned Staff* 09 instances were identified where final settlement was cleared with a delay ranging from **34 days to 84 days**.	The delays occurred due to late receiving of clearance of above-mentioned resigned employees from relevant departments.
12	*Gate Access of Resigned Staff – Not Revoked* 07 instances were identified where user IDs of resigned staff on attendance machine were not revoked resultantly resigned staff have access to office premises.	The point has been noted and made part of our exit clearance process. Further, it is to inform that the Attendance Machines are now up-to-date. The records of resigned staff have been removed from all machines placed in office premises.
13	*Previous Employment Verification* At the time of conducting audit, IAD noted an instance where previous employment experience is not verified by the HR department.	At time of Audit, his employment verification was in process. Now it is verified and filed in his personnel file. The verification has been completed in 80 days.
14	*Interview Evaluation Form – Not Found / Unsigned* 02 instances were identified where Interview Evaluation forms are not found in employee files. Further, 05 instances were noted where Interview Evaluation forms are not signed by the interviewer.	HR department is in process of getting it filled and signed by relevant stakeholders and noted for future compliance.
15	*Academic and Professional Documents were not Filed*	Their internship period has ended now; however, the point is noted for future compliance.

	02 instances were identified where academic and professional documents mentioned in the resume of the newly recruited interns were not filed in HR File.	
16	**_Employee Exit Formalities – Not Properly Fulfilled_** Identified 05 instances where employee exit formalities like acceptance of resignation, exit interview form etc. are not properly filed in HR files.	Above-mentioned documents are available in HR records (in electronic personnel files folder) and attached for reference.
17	**_Higher Bank Profit Rates – Not Availed – Opportunity Loss to Funds_** The funds under management were not placed by the FMD in the banks providing higher returns than others banks, resulting in opportunity loss to the funds. "National Bank of Pakistan" was offered 9.50% having no upper cap limit for the period from December 01, 2021 to December 14, 2021. However, the FMD had deposited additional cash of PKR 3.1 billion in "Faysal Bank Lahore Branch" offering lower profit rates (i.e. 9.30%).	Islamic banks in particular are reluctant in accepting amounts above a certain level. In addition, negotiations were underway with both banks for better rates, FABL Islamic committed to enhancing the rate after MPS whereas, NBP Islamic was reluctant to do the same. Therefore, Fund Management continue the relationship with FABL Islamic which eventually turned positive as the rate was significantly increased to 10.50%.
18	**_Facility Letter Received with Delay_** Facility letter of DIB – KSE Branch received with a delay of **06 days** in the month of September 2021.	Best efforts are made and we have already improved significantly as it is a single instance in the period under review, but usually, banks are slow to respond. Branches are of the view that rates are being quoted by Treasury and Centralized Units therefore being dependent they cannot offer any rate until being communicated by higher authorities.
19	**_Delay in Recording of Profit Received in GL_** Profit received from the banks were not timely recorded in the books and was considerably delayed ranging from **12 days to 27 days**.	Mark-up is calculated on group accounts and recorded after receipt of bank statement and checking status of all funds and resolving issues (if any).
20	**_Requirement of Project management policy not implemented completely._** During the audit of project management activities surrounding the sales app, IAD observed that some of project management policy requirements for documentation have not been completed. The management should assess and evaluate the project management policy and ensure that requirements	The management is process of reviewing the IT Policy including Project Management Policy. Some of the requirements which are not practical would be aligned according to best practices, for an organization of our size.

	mentioned in the policy should commensurate with the nature and size of the organization.	
21	**_Delay in Lead Assignment and Contact Establishment_** 03 instances identified where delay in assignment by the sales staff ranges from **40 days to 42 days**. 05 instances were identified where delay contact was established with customer ranging from **03 days to 34 days**.	We have started manually assigning new tasks to our digital sales team based on some goals to be achieved; These leads/tasks are designed with a certain goal to be achieved in a certain amount of time. So these leads wont necessary be closed until the goal is achieved or time period is up (whichever comes first). Hence the team members move in a sequence of most responsive customer. Also the leads that we have assigned have very old customers marked in them, and with some of the customers we are unable to establish contact over phone which may be due to change of contact details. We do have a very effective monitoring system in place where senior members ensure that there are no delays in contact establishment Management is looking into these issues and these delay (assigning on CRM) will not occur in future. Now leads are being shared and catered on CRM in timely manner.
22	**_Fresh Chat - All functions are not handled by the Business Owner_** In case of any issues faced by the Call centre staff in fresh chat application, they escalate it to the marketing department who forwards the issue to the technical support team despite the fact that Fresh chat have online free technical support is available from the vendor 24/7 and the users can easily communicate their issues to the vendor via chat message option.	The services of Fresh Chat were acquired by the Management in order to deliver better customer experience including swift average response time and also provide ease of operations to our CC Agents and so far we have been able to achieve the same. Therefore, we don't see any need of changing the existing SOP
23	**_Weak SOP in dealing with delayed responses because of technical faults_** Currently, ISD / CC staff does not have any mechanism or tool to identify the actual cause of delay in chat service except to forward the delayed instances to marketing department which was forwarded the same to fresh chat support staff. IAD recommended that delayed chat should be analysed by quality assurance team to identify reasons for delay.	The services of Fresh Chat were acquired by the Management in order to deliver better customer experience including swift average response time and also provide ease of operations to our CC Agents and so far we have been able to achieve the same. Therefore, we don't see any need of changing the existing SOP

THANK YOU