



PACKAGES LIMITED

INTERNAL AUDIT POLICY

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1. Purpose

This document defines the policies governing Internal Audit Department (IAD) at Packages Limited (Packages) and serves as a charter for the department. It establishes IAD's position within Packages and defines the purpose, scope, objectives, authority and responsibilities of IAD.

Internal Audit Department has been established by the Board of Directors and its responsibilities are defined by the Audit Committee, in compliance with the Code of Corporate Governance issued by Securities and Exchange Commission of Pakistan (SECP) which makes it mandatory for every listed company to have an independent Internal Audit Function.

An effective IAD shall assist the company to achieve its strategic goals, comply with laws and regulations and improve operational and financial reporting controls. This shall be done by helping management to improve governance, risk management and control processes.

2. Vision & Mission Statement

Vision

To be recognized as a valuable business partner by independently and objectively assisting management in fulfilling their responsibility to ensure operations are managed ethically, effectively and efficiently.

Mission Statement

To enhance and protect organizational value by providing risk based and objective assurance, advice and insight.

3. Definitions

3.1. Assurance Engagements

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system review and due diligence engagements.

3.2. Audit Committee

The Audit Committee means an advisory and assurance body constituted by the Board of Directors for its assistance in fulfilling its oversight responsibilities.

3.3. Auditable Entity

Means functions, departments and processes which may be subject to audit depending upon their risk profile.

3.4. Audit Universe

Audit Universe is a database that represents the potential range of all audit activities and is comprised of a number of auditable entities. These entities generally include a range of programs, activities, functions, structures and initiatives which collectively contribute to the achievement of the organization's strategic objectives.

3.5. Board of Directors

The highest level of governing body charged with the responsibility to direct and/or oversee the governance of the organization.

3.6. Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities, objectively.

3.7. Consulting Engagements

Advisory and related service activities by IAD staff to the management of Packages, the nature and scope of which are agreed with the concerned stakeholders (requesting entity/ function), that are intended to add value and improve an organization's governance, risk management and business control processes without assuming management responsibility.

3.8. Control

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved.

3.9. Due Diligence

Due diligence is the process of systematically researching and verifying the accuracy of a statement. It is a consulting engagement whereby the scope, timing and extent are agreed with the requesting entity.

3.10. Fraud

An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

3.11. Governance

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization towards the achievement of its objectives.

3.12. Head of Internal Audit

Head of Internal Audit describes a person appointed by Audit Committee who is responsible for effectively managing the internal audit activity in accordance with the internal audit policy and procedures.

3.13. Impairment

Impairment to organizational independence and individual objectivity may include personal conflict of interest, scope limitations, restriction on access to records, personnel, properties or resource limitations.

3.14. Independence

Independence is freedom from conditions that threaten the ability of the internal audit activity to perform internal audit responsibilities in an unbiased manner.

3.15. Investigation

Investigation involves detailed or careful examination of books, records, searching, inquiry for gaining information and ascertaining facts of suspected fraudulent activities; and reporting on the basis of facts.

3.16. Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

3.17. Risk Management

Risk management is a structured, consistent and continuous process across the whole organization for identifying, assessing, managing, controlling and deciding on responses to and reporting on opportunities and threats that affect the achievement of its objectives. Risk management as commonly perceived does not mean minimizing risk; rather the goal of risk management is to optimize risk-reward trade-off. This exercise is the responsibility of management.

3.18. Working Papers

Working papers are the documents which record all audit evidence obtained during audit, investigations and other assignments. Audit working papers are used to support the audit work done in order to provide assurance that the audit was performed in accordance with the relevant internal auditing standards.

4. Scope & Objectives

Scope

The scope of work of IAD is to examine and evaluate whether the Packages' entity wide risk management, control and governance processes as designed and implemented by management, are adequate and effective.

IAD will provide broader range of assurance services which include, but are not limited to; operational audit, IT audit, financial audit and reviews, compliance review and due diligence engagements. In addition, the consulting engagements will be accepted based on their potential to improve governance, risk management and control processes without Internal Audit assuming the management responsibility.

IAD represents the third line of defense and provides independent assurance of the effectiveness of management's control of business activities (the first line) and of the process maintained by Compliance and Risk Management functions (the second line). IAD provides risk-based assurance on whether the system of control is working as required by the Risk Management Framework.

Objectives

1. To provide assurance that the company's governance processes, internal controls and risk management procedures and methodologies (including identification, assessment and management of risks) are adequate and functioning effectively;
2. Reviewing that policies, systems, procedures and directives/ decisions of the Board of Directors (BOD) as well as Committees of the BOD and regulator (SECP) are implemented in their true letter and spirit;
3. Reviewing compliance with laws and regulations applicable to the company including compliance with the policies and procedures of Packages;
4. To monitor that significant financial, managerial and operating information is accurate, reliable and timely updated, further evaluate whether prescribed books are being properly maintained and balanced on regular intervals;
5. To identify and highlight the control gaps and recommend improvements in the internal control systems and further ensure that timely appropriate actions are being taken by the management;
6. Review of management and financial information systems including Information Technology;
7. To perform consulting and advisory services including investigations and reviews with the objective of improvement in governance, risk management and control processes;
8. Evaluating the means of safeguarding company's assets and, as appropriate, verifying the existence of such assets;
9. Evaluating the effectiveness and efficiency with which resources are employed;

10. Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
11. Assess whether quality and continuous improvement are embedded in the organization's control processes;
12. Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately;
13. Analysis, recommendations, counsel and information concerning the activities reviewed are furnished to the members of the organization;
14. Evaluating specific operations on the directions of Audit Committee or senior management, as appropriate;
15. Ensuring there is appropriate follow-up of audit recommendations; and
16. Provide proactive support to the Audit Committee in discharging all of its responsibilities relating to Code of Corporate Governance or required under any other law or regulation.

5. Responsibilities

The HIA has responsibilities to:

1. Develop an Internal Audit Plan (IAP) using an appropriate risk-based methodology, including any risks or control concerns identified by senior management, board and its sub-committees, and submit that plan to the Audit Committee for review and approval;
2. Implement the IAP, as approved, in addition to any appropriate special tasks or projects requested by senior management or the Audit Committee;
3. Provide updates on the progress of the IAP on a periodic basis and annual performance review report to Audit Committee;
4. Maintain professional team of audit staff with sufficient knowledge, skills, experience and professional certifications to meet the requirement of this Policy;
5. Issue periodic reports to the Audit Committee and management summarizing results and highlighting significant findings and recommendations of audit activities, along with management responses/ comments on these findings;
6. Report to Audit Committee, on immediate basis, any restrictions or limitations imposed on Internal Audit which prevent it from performing duties or fulfilling its mission;
7. Assist in the investigation of significant suspected fraudulent activities within the organization and notify management and/or Audit Committee of the results;
8. Consider the scope of work of the External Auditors and other control groups and assurance providers (like Quality Assurance, Risk Management, Internal Control, Regulatory etc.) for the purpose of providing optimal audit coverage in the most efficient and effective manner;

9. Provide consulting services, beyond internal audit assurance services, to assist management in meeting its objectives. To maintain the independence and objectivity of internal audit, line management remains responsible for accepting and implementing any advice provided by Internal Audit;
10. Keep the Audit Committee informed of emerging trends and successful practices in internal auditing;
11. Develop, implement and monitor internal audit policies, procedures, guidelines, templates, etc. that govern all the activities of the IAD and making recommendations to the Audit Committee for their necessary revision on periodic basis;
12. Evaluate the effectiveness of Internal Audit and its compliance with Internal Audit policies, procedures and guidelines;
13. Adopt an effective risk based audit approach for the conduct of the audit of various auditable entities;
14. Coordination with the external auditors and review of control deficiencies highlighted by external auditors along with the management action plan thereon and submit reports to the Audit Committee on the sufficiency and appropriateness of the management's action plans; and
15. Provide assistance to the Audit Committee in carrying out any of its responsibilities and providing all information sought by the Audit Committee.

6. Authority

IAD is authorized to:

1. Have unrestricted access to all functions, records, property and personnel that is deemed necessary to discharge its audit responsibilities. Internal Audit will exercise discretion in the review of records to assure the necessary confidentiality of matters that come to its attention;
2. Have full and free access to Audit Committee;
3. Allocate resources, set frequencies, select subjects, determine scope of work and apply the techniques required to accomplish audit objectives;
4. Obtain the necessary assistance of personnel of the functions being audited as well as other specialized services (legal, tax, technical opinion, actuary etc.) within and outside Packages; and
5. Documents and information given to Internal Audit during review will be handled in the same prudent and confidential manner as by those employees normally accountable for them.
6. HIA may attend any meetings of the management, as observer, to ensure that the Internal Audit function keeps itself updated with latest developments in the company and its business.

7. Organizational Independence and Objectivity

1. The IAD shall be a permanent and dedicated function with adequate resources, and shall be directly reporting to the Audit Committee. The IAD shall be structured in such a way that it can meet the primary objective of ensuring independence of the internal audit activity from the

management.

2. The IAD will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of a necessary independent and objective mental attitude.
3. Internal auditors will have no operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment. Moreover, review and appraisal process by internal audit activity does not relieve the management of its responsibilities to maintain effective risk management, governance and control processes. Management will be responsible for the operation and enhancement of internal controls. This includes responsibility for addressing recommendations identified in Internal Audit reports endorsed by the Audit Committee.
4. Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
5. The entire internal audit activities shall be carried out by the employees of IAD. However, in certain cases where IAD lack expertise that are required to conduct any specialized assignment, it may seek assistance from experts in the relevant field. The oversight of all audit activities shall be performed.
6. The HIA may attend various committee meetings of the Packages management as an observer to ensure that the internal audit keeps itself abreast of all the significant developments within the organization.
7. The HIA shall report functionally to Audit Committee and administratively to Chief Executive Officer. The HIA shall, as and when deemed necessary, review the organizational structure of IAD and recommend any proposed changes to Audit Committee for approval.
8. HIA's functional reporting to Audit Committee will involve:
 - Approving the Internal Audit Policy;
 - Approving the risk based Internal Audit Plan;
 - Approving the internal audit resource plan and budget;
 - Approving and recommending the appointment, remuneration and removal of HIA to the Board;
 - Receiving communications from HIA on the IAD's performance relative to its plan and other matters; and
 - Making appropriate inquiries of management and HIA to determine whether there are any scope or resource limitations.
9. HIA's administrative reporting to CEO will involve:
 - Internal communication and ensuring adequate flows and escalation of information; and

- Administration of day to day operational activities.
10. HIA shall hold periodical meetings with IAD staff to discuss problems faced by them or any other recommendation that require deliberation. Further, HIA is empowered to assign any additional responsibility to any staff member or shuffle the responsibilities temporarily or permanently.

8. Internal Audit Staffing

1. IAD shall be adequately resourced with quality personnel who possess sufficient knowledge, professional qualifications, experience and expertise to ensure that all the responsibilities assigned to IAD are effectively and efficiently fulfilled and to ensure compliance with any specific qualification requirements of the Code of Corporate Governance for listed companies.
2. All staff within IAD shall be provided with their assigned responsibilities in the form of job descriptions which shall be prepared by HIA duly approved as per the Human Resource (HR) Policy. The job descriptions shall be subject to review on a periodic basis.
3. With a view to equip the audit personnel with the latest technological developments and enhance their professional competence, long-term as well as short-term training programs should be conducted, focusing on modern internal auditing techniques.
4. IAD shall encourage its staff to achieve professional qualifications relating to the discipline of internal audit in accordance with HR policy.
5. If any internal auditor has potential impairments to independence or objectivity relating to any proposed internal audit activity, disclosure of the same shall be made by the said auditor to HIA deploying him/her for that activity, who in turn shall be responsible to take the same into account at the time of assigning the said employee to the proposed internal audit activity.

9. Internal Audit Plan

1. IAD shall plan its activities in the form of an 'Internal Audit Plan' (IAP) containing the schedule of audits including time and frequency of execution of different audit engagements which will be reviewed and recommended by HIA to Audit Committee for approval.
2. Any risks or control concerns identified by IAD stakeholders, including Audit Committee and the Packages senior management, shall be taken into account while preparing IAP.
3. The IAP will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the Board or Board Committees. IAP must be consistent with the Internal Audit Policy and goals of Packages. Objectives of the risk assessment are to optimize audit assignments and audit resources through a comprehensive understanding of the auditable entity and the risks associated with their area of operations which will help in deciding the frequency of audits, deciding the quality of audit personnel to be assigned, determination of time to be spent, prioritizing of areas within the auditable entity and sampling techniques and size to be applied.
4. The actual performance of IAP shall be monitored by HIA who will ensure compliance with the targets set out in the IAP and any deviations from the said plan shall be justified by proper reasons. The HIA will submit this performance report to Audit Committee after each quarter

and thereafter a consolidated report at the end of the audit cycle.

5. The IAP shall be revised if any unforeseen or special circumstances require so and appropriate adjustments shall be made in the IAP as and when required after getting approval of the same.

10. Standards for Audit Practice

1. The IAD will govern itself through the Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards).
2. The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be referred to guide internal audit operational activities. In addition, the internal audit activity will adhere to Packages relevant policies and procedures.
3. Members of Internal Audit have the responsibility to maintain high standards of ethical conduct, due professionalism, independence, and character to carry on proper and meaningful internal auditing within Packages. In addition, Internal Audit's activities and conduct shall be consistent with the Code of Ethics annexed as "**Annexure A**" to this document.
4. In case of any contradiction between this policy and guidance given in any other document, this policy shall override.

11. Quality Assurance and Improvement Program

The HIA will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the IAD's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program would also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement through ongoing monitoring.

12. Reporting to Audit Committee and Monitoring

1. Internal Audit shall report performance against the Internal Audit Plan approved by Audit Committee, significant findings and any other matters deemed appropriate, along with management input, to the Audit Committee. This reporting will include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Board or Board Committees. When appropriate, reports will also contain an action plan designed to address the issue raised in the report. Internal Audit shall monitor the progress of these action plans and provide follow up reports.
2. HIA shall, as considered appropriate, immediately report either any major cases of fraud, serious exceptions, and unjustified restrictions to scope of audit or matters that impair the IAD's objectivity and independence, to Audit Committee.
3. Relevant extracts of minutes of Audit Committee meetings shall be circulated to the concerned personnel of Packages by the Secretary Audit Committee for their timely information and necessary action.

13. Procedures, Templates and Mechanisms

1. Audit Committee shall approve procedures manual along with templates, mechanisms and other documents to be developed and followed for the implementation and compliance of this policy.
2. HIA is authorized to issue any guidelines for mentoring of the auditors and bringing uniformity and standardization in the practices followed by the internal auditors.

14. Annexure

Annexure A

CODE OF ETHICS

Internal auditors are expected to apply and uphold the following principles and rules of conduct:

1. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

Internal auditors in their conduct:

- Shall perform their work with honesty, diligence, and responsibility.
- Shall observe the law and make disclosures expected by the law and the profession.
- Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

Internal auditors in their conduct:

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- Shall not accept anything that may impair or be presumed to impair their professional judgment.
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Internal auditors in their conduct:

- Shall be prudent in the use and protection of information acquired in the course of their duties.
- Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

Internal auditors in their conduct:

- Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- Shall continually improve their proficiency and the effectiveness and quality of their services.