



***PACKAGES LIMITED***

**INTERNAL AUDIT POLICY**

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## 1. Purpose

This document defines the policies governing the 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 Board Audit Committee (BAC), 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 Board Audit Committee (BAC)

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

### 3.3. Auditable Entity

Means functions, departments, processes, subsidiaries, group companies 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 is 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 the 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 Chief Executive Officer, 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 (HIA) describes a person appointed by BAC who is responsible for effectively managing the internal audit activity in accordance with the internal audit policy and procedures. Manager Internal Audit will be considered as HIA for respective group company.

### **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 based on 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, policies and best practices.

## **4. Core Principles for the Professional Practice of Internal Audit**

It is expected from all members of the IAD that they behave and conduct themselves in a manner that reflects the department's commitment to acting ethically and in compliance with the rules of conduct as mentioned in section 3 of the Internal Audit Manual (IA Manual) in addition to those that are contained in the Company Code of Conduct available on Intranet.

The following Core Principles, taken as a whole, articulate the Internal Audit activities' effectiveness in achieving its mission and objectives.

- i. Integrity
- ii. Competence and due professional care
- iii. Objectivity and independence
- iv. Confidentiality

## **5. Scope & Objectives**

### **Scope**

The scope of work of IAD is to examine and evaluate whether the Packages Group's entity wide risk management, control and governance processes as designed and implemented by management, are adequate and effective. The role and responsibility of the internal audit function is oversight, not preparation or operations.

IAD will provide a 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.

BAC/BOD and management may, from time to time, recommend/request respectively any consulting/special assignment to Internal Audit Department. Such 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/Policy.

## 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 policies, systems, procedures, and directives/ decisions of the BAC and regulator (SECP) are implemented in their true letter and spirit.
3. Reviewing ethics-related objectives, programs, and activities including but not limited to whistleblowing and anti-fraud policies and Code of Conduct.
4. To evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.
5. Reviewing compliance with laws and regulations applicable to the company including compliance with the policies and procedures of Packages.
6. 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.
7. 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.
8. Review of management and financial information systems including Information Technology.
9. Evaluating the means of safeguarding a company's assets and, as appropriate, verifying the existence of such assets.
10. Evaluating the effectiveness and efficiency with which resources are employed.
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 in BAC.
13. Provide proactive support to the BAC in discharging all its responsibilities relating to the Code of Corporate Governance or required under any other law or regulation.

## 6. Responsibilities

The Internal Audit Department shall be responsible 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 BAC for review and approval.
2. Implement the IAP, as approved, in addition to any appropriate special tasks or projects requested by CEO or the BAC provided that any such service provided by the IAD shall not be construed to compromise its independence or objectivity.
3. Provide updates on the progress of the IAD on a periodic basis and annual performance review report to BAC.
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 BAC and management summarizing results and highlighting significant findings and recommendations of audit activities, along with management responses/ comments on these findings.
6. Report to BAC, on an immediate basis, any restrictions or limitations imposed on internal Audit which prevents it from performing duties or fulfilling its mission.
7. Assist/perform the investigation of significant suspected fraudulent activities within the organization and notify management and/or BAC 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 and advisory services, beyond internal audit assurance services, to assist management in meeting its objectives. The objectives of such engagements should be consistent with the organization's values, strategies, and 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 BAC informed of emerging trends and successful practices in internal auditing.
11. Develop, implement, and monitor internal audit policies and procedures that govern all the activities of the IAD and making recommendations to the BAC for their necessary revision on a 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 BAC on the sufficiency and appropriateness of the management's action plans.

15. Provide assistance to the BAC in carrying out any of its responsibilities and providing all information sought by the BAC.
16. The IAD shall share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts where deemed necessary.
17. The members of the IAD shall make their best endeavors to carry out their responsibilities specified under this Policy applying due care and skills expected of a reasonably prudent and competent internal auditor. The Internal Auditor shall conduct examinations and verifications to a reasonable extent and not all the transactions, with an attitude of professional objectivity.
18. 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.
19. Evaluate whether analysis, recommendations, counsel, and information concerning the activities reviewed are furnished to the members of the organization.
20. Evaluating specific operations in the direction of BAC or senior management, as appropriate.
21. Ensuring there is appropriate follow-up of audit recommendations for assurance as well as special assignments.

## **7. Authority**

IAD is authorized to:

1. Have unrestricted access to and communicate with any member of the Company, examine any activity, process, department, property, or function of the Company, as well as to access any minutes, accounts, vouchers, records, files, or electronic records of the Company, including MIS reports, correspondences, and any other data, whenever relevant to the performance and execution of its engagements.
2. Allocate resources, set frequencies, select subjects, determine scope of work, and apply the techniques required to accomplish audit objectives.
3. 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
4. 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.
5. HIA may attend any meetings of the management, as observer, to ensure that the IAD keeps itself updated with the latest developments in the company and its business.
6. HIA will have open and direct access to the Chair of the BAC, its members and Chair of the Board or full board as he deems fit.
7. The IAD will also have authority to communicate with external auditors to facilitate them in their audit and discuss matters of significance to ensure proper coverage and minimize duplication of efforts.

## 8. Organizational Independence and Objectivity

Group Head Internal Audit shall be functionally reporting to the Chairman of the BAC of Packages Limited and administratively to the CEO of Packages Limited. HIA for group companies shall be functionally reporting to the Chairman of the BAC of the respective Group Company and administratively to the Group Head Internal Audit/ respective CEO.

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.

1. 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.
2. 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 the 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 BAC.
3. 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.
4. Periodically, it shall be assessed whether any of the Internal Auditors have potential impairments to independence or objectivity relating to a proposed or an existing internal audit activity. The impairment indicators have been detailed in IA Manual.
5. In case an impairment to independence is identified, disclosure of the impairment shall be made by the Internal auditor to HIA deploying him/her, who in turn shall ensure that such an employee is not assigned the client/activity that he/she has conflict with.
6. In case of Internal job placement, the Internal Auditor must refrain from assessing specific operations for which they were previously responsible in management capacity for a period as may be considered reasonable by HIA and the disclosure of it shall also be made as mentioned above.
7. If HIA believes the impairment is real and is affecting the ability of internal audit to perform its duties independently and objectively, the HIA may discuss the impairment with the board and senior management and seek their support to resolve the situation. For detailed guidance over conflict and impairment management refer to IA Manual.
8. The IAD may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.
9. Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

## 9. Internal Audit Resources

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. HIA shall be an independent person who does not have any responsibility of the clients to which assurance services are being provided.
3. The HIA shall, as and when deemed necessary, review the organizational structure of IAD and recommend any proposed changes to BAC for approval.
4. 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.
5. Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the way it is managed by the organization but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.
6. If the internal audit team lacks any technical expertise, HIA may consider the assistance of an external expert or guest auditor from within the organization with adequate technical expertise required.
7. Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. For this purpose, the internal audit team shall have a dedicated IS/IT Auditor.
8. It shall be ensured that the Internal audit team has access to a reasonable audit management tool which is updated periodically to reflect the latest best practice and computer assisted audit techniques.

## 10. Internal Audit Plan

1. IAD shall establish the objectives, scope, and timing of the audit/ consulting engagement, and communicate these expectations to management of the entity Service Agreement.
2. 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 BAC for approval.
3. Any risks or control concerns identified by IAD stakeholders, including BAC and the Packages Group's senior management, shall be taken into account while preparing IAP.
4. The IAP will be developed based on a prioritization of the audit universe using a risk-based methodology as mentioned in section 4 of the IA Manual, including input of senior management and the Board or Board Committees. IAP must be consistent with the Internal Audit Policy and goals of Packages Group. 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.

5. 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 progress report to BAC after each quarter and thereafter a consolidated report at the end of the audit cycle.
6. 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.

#### **11. 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' Implementation Guidance and Practice Guides 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. In case of any contradiction between this policy and guidance given in any other document, this policy shall override.

#### **12. Quality Assurance and Improvement Program (QAIP)**

1. 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, Code of Ethics and the relevant Standards.
2. The program would also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement through ongoing monitoring.
3. QAIP must include both internal and external assessments.
4. HIA shall communicate the results of QAIP to senior management and BAC.

#### **13. Reporting to BAC**

1. Internal Audit shall report performance against the Internal Audit Plan approved by BAC, significant findings and any other matters deemed appropriate, along with management input, to the BAC. 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 BAC.
3. Relevant extracts of minutes of BAC meetings shall be circulated to the concerned personnel of Packages by the Secretary BAC for their timely information and necessary action.
4. HIA shall also present the following to the BAC.
  - i. Annual independence and Objectivity Confirmation
  - ii. Conformance with the Code of Ethics and Standards, and action plans to address any significant conformance issues. Any non-conformance to the same shall also be disclosed.
5. In case, a final communication of results or report contains a significant error or omission, the HIA must communicate corrected information to all parties who received the original communication.

#### **14. Whistle Blowing Function**

IAD shall also act as Whistle-blowing Function to address the concerns of employees and outside parties such as shareholders, vendors, customers etc. for reported wrongdoings, impropriety, irregularities, financial malpractices, fraud & forgeries, personnel harassment, and improper conduct, as per scope approved by the Board of Directors. The Whistle Blowing function is governed by a separate Whistle Blowing Policy as available on the intranet.

#### **15. Risk Management**

1. The Group Companies shall adopt a systematic approach to mitigate risks associated with accomplishment of its objectives in the form of Risk Registers.
2. The Risk Management & Compliance Committee/ BAC shall be formed for formulating and implementing a comprehensive Risk Management Framework comprising of Entity-wide strategy, risk management structure and a policy framework setting out policies with respect to the risk management process and the necessary infrastructure required to implement the Framework.
3. Refer to Risk Management Policy/ Framework for further details.
4. IAD shall provide risk-based assurance on whether the system of control is working as required by the Risk Management Framework/Policy. Internal auditors must incorporate knowledge of risks and controls gained from consulting engagements into their evaluation of the organization's risk management processes/risk registers.

#### **16. Training**

1. 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.
2. IAD shall encourage its staff to achieve professional qualifications relating to the discipline of internal audit in accordance with the Development Program Policy as available on the intranet.
3. The IAD staff opting for professional qualifications in order to improve their professional knowledge and skill set will be eligible for reimbursement of fees and dues in accordance with the Professional Fee Reimbursement Policy.
4. HIA shall ensure that an annual training calendar is developed in collaboration with the HR department and as per the Learning and Development Policy available on the intranet.
5. A sufficient budget shall be allocated to training and continued professional development.

#### **17. Procedures, Templates and Mechanisms**

1. The BAC shall approve the procedures manual to be developed and followed for the implementation and compliance of this policy.
2. HIA is authorized to issue any guidelines and templates for mentoring of the auditors and bringing uniformity and standardization in the practices followed by the internal auditors.