

A. Objectives

1. Internal Audit Function ("IAF") is an independent and objective assurance and consulting activity designed to add value and improve the operations of Gharibwal Cement Limited ("the Company"). IAF assists the Company in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the efficiency and effectiveness of the organization's risk management, control, and governance processes.
2. IAF is responsible for giving assurance to the Board, through the Audit Committee, on the standard operating procedures (SOPs) for risk management, control and governance, and value for money. It also assists management by evaluating and reporting to them on the effectiveness of these SOPs.
3. IAF is not an extension of, nor a substitute for, good management, although it can have a role in advising management on risk management, control and governance, value for money and related matters, subject to resource constraints. IAF shall have no direct operational responsibility or authority over any of the activities it reviews. Accordingly, it shall not develop nor install systems or procedures, prepare records or accounts, or engage in any other activity which would normally be considered management or staff's responsibility.

B. Organizational structure

1. Head of Internal Audit shall be called Chief Internal Auditors and shall be appointed and removed by the Board of Directors only upon recommendation of the Chairman of the Audit Committee.
2. The Chief Internal Auditor should have 5 years of relevant audit experience and is:
 - (a) a member of a recognized body of professional accountants; or
 - (b) a Certified Internal Auditor; or
 - (c) a Certified Fraud Examiner; or
 - (d) a Certified Internal Control Auditor
3. The Board Audit Committee shall assess IAF's organizational structure, mandate and operating budget to ensure that these are appropriate and sufficient to meet agreed activities.

C. Scope and Professional standards

1. All the Company's activities fall within the remit of the Internal Audit Function. This does not imply that all areas will be subject to review, but that all will be included in the audit risk assessment.
2. The Internal Audit Function will consider the adequacy of arrangements necessary to secure propriety, economy, efficiency and effectiveness in all areas. It will seek to confirm that management have taken the necessary steps to achieve these objectives and manage the associated risks.

3. IAF's scope encompasses the examination and evaluation of the adequacy and effectiveness of the Company's governance, risk management process, system of internal control, and the quality of performance in carrying out assigned responsibilities to achieve the Company's stated goals and objectives. It includes:
 - a. Auditing internal control procedures and risk assessment procedures (i.e. SOPs) in order to obtain assurance that these procedures are appropriately designed and effectively implemented
 - i. to deduct and prevent fraud or errors;
 - ii. to comply with policies, plans, laws, and regulations;
 - iii. to safeguard assets of the Company; or
 - iv. to promote the economic, efficient and effective use of resources
 - b. Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
 - c. Identifying the areas of risk where SOPs are not designed/implemented; along with advising on objectives of these SOPs.
 - d. Conducting specific reviews or tasks requested by the Board, the Audit Committee or the CEO, provided such reviews and tasks do not compromise IAF's independence or objectivity.
4. It is not within the remit of the Internal Audit Function to question the appropriateness of policy decisions. However, the Internal Audit Function is required to examine the arrangements by which such decisions are made, monitored and reviewed, and related risks identified and reviewed.
5. The Internal Audit Function shall govern themselves by adherence to The Institute of Chartered Accountants of Pakistan' *Code of Ethics*. The Institute of Internal Auditors's *International Standards for the Professional Practice of Internal Auditing* shall constitute the operating procedures for the department. In addition, IAF will adhere to the Company's policies and procedures.
6. To achieve its objectives the Internal Audit Function will develop and implement an audit strategy and plans that assesses the Company's arrangements for risk management, control and governance and for achieving value for money at the beginning of each financial year. The Chief Internal Auditor will implement measures to monitor the effectiveness of the service and compliance with standards.
7. The Audit Committee will consider the audit strategy and plans along with the performance measures and may also seek an independent assessment of the Internal Audit Function's effectiveness. The Audit Committee shall recommend the same to the Board for its approval.
8. IAF shall regularly submit to the CEO and Audit Committee an up-to-date summary of the audit work schedule. The audit work schedule is developed based on a prioritization of the audit universe using a risk-based methodology. Any significant deviation from the formally approved

work schedule shall be communicated to the CEO and the Audit Committee through periodic activity reports.

D. Authority and confidentiality

1. The Internal Audit Function shall have right for full and unrestricted access to all the Company records, physical properties, and staff relevant to any area under review without disturbing the working environment of employees. All employees are requested to assist IAF in fulfilling its function.
2. Documents and information obtained by IAF will be handled in the same prudent and confidential manner as by those employees normally accountable for them. No information or document shall be shared with outsider or used by the IAF otherwise than to achieve the objectives of IAF.

E. Reporting

1. The Chief Internal Auditor is accountable to the Board of Directors through the Audit Committee for the performance of the service. For day to day administrative purposes, the Chief Internal Auditor reports to the CEO and CFO.
2. The Chief Internal Auditor shall have free and unrestricted access to the Chair of the Board and to the Chair of the Audit Committee.
3. At least once a year, the Audit Committee shall meet the Chief Internal Auditor and other members of the internal audit function without the CFO and the external auditors being present.
4. The Internal Audit Function will produce draft reports, usually within one week of completing each internal audit, giving an opinion on the area reviewed and making recommendations for improvement where appropriate. These will be discussed with the line managers responsible who will provide responses to the report, giving management comments and details of a plan of action with timescales for implementing recommendations.
5. A final report will then be issued to line managers, usually within one month of issuing the draft report. Such reports will also be provided to the CFO and the CEO.
6. A quarterly report should be submitted to the Board through Audit Committee. Significant finding (e.g. any serious weaknesses, significant fraud or major accounting breakdown discovered during the normal course of audit work) and recommendation along with the auditee's response and corrective action (to be) taken in this regard, including a timetable for anticipated completion and a justification for any recommendations not addressed should be consolidated into quarterly report. The quarterly report should give an opinion on the adequacy and effectiveness of the Company's arrangements for:
 - a. risk management, control and governance, and
 - b. economy, efficiency and effectiveness and the extent to which the Board can rely on them.

7. Recommendations will be followed up, usually six to twelve months later. In addition the Audit Committee will monitor the implementation of audit recommendations by management. IAF shall monitor the appropriate follow-up on audit findings and recommendations. All significant findings will remain in an open issues file until cleared.
8. The management shall not be bound to accept the recommendation of the IAF if it has reasonable ground to believe that these will not bring any significant improvement in risk management, control and governance, and value for money.